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Near East & South Asia

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Daily Report
Near East & South Asia

FBIS-NES-96-142 *23 July 1996*

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Palestinian Affairs

Palestinian Affairs: Abu-Middayn on Upcoming 'Arafat-Levi Meeting

JN2307082696 Jericho Voice of Palestine in Arabic 0426 GMT 23 Jul 96

[Telephone interview with Palestinian Justice Minister Furayh Abu-Middayn by Fathi al-Barqawi in the studio; from the "A New Day" program — live]

[FBIS Translated Text] [al-Barqawi] Brother Furayh Abu-Middayn, good morning.

[Abu-Middayn] Good morning. You are welcome.

[Al-Barqawi] Today, President Yasir 'Arafat will meet with the Israeli foreign minister. This will be the highest level of Palestinian-Israeli talks since the Likud's election victory in Israel. Do you believe that these talks will activate the stalled peace process?

[Abu-Middayn] I do not believe that these talks will produce very much. With regard to the premise concerning the high level of talks, we must state a fact. Netanyahu and the Israeli Government must realize that President Yasir 'Arafat is the Palestinian people's leader. Whether Levi or Netanyahu meets with 'Arafat or not, nothing will change this fact. We have firm principles and policies.

The real question for Levi is whether or not he has the mandate to discuss all sensitive and substantive issues, particularly those agreed upon, the agreements Mr. Peres failed to honor. At present, there is an absolute disavowal of the agreements we signed with the Israeli side. The president will go over the details with Mr. Levi. He will tell him that our agreements are binding on the Israeli Government. The Knesset endorsed these agreements, which must be honored. We cannot accept their excuses regarding their failure to withdraw from Hebron. The Israelis are saying that they will reconsider the Hebron issue. They want a surgical operation there. They want Hebron to remain a festering wound, a city that is vulnerable to constant security threats.

The most important question in this regard is: Does Mr. Levi have the mandate to hold real discussions on such issues, as President 'Arafat is mandated to do so by the National Authority and the PLO? This is the important thing that will be seen tomorrow [as heard]. If Mr. Levi has a mandate in this regard, I believe that he must acknowledge the facts. He must realize that Israel must proceed with the implementation of the agreements that have already signed. Given the fact that he is the number-two man in Israel and its foreign minister, he must realize this. Does he have a mandate in this regard? I doubt it.

I believe he is coming to the meeting to provide camouflage, just as his boss did in Cairo and will do in Amman. This meeting is aimed at diluting the Arab indignation Netanyahu triggered during his recent visit to the United States, where he made reckless statements about Jerusalem, the final-status talks, and issues at the heart of the overall peace process. Today, we will see if it is possible to forge ahead. We have highly important issues to discuss, such as secure passage and Hebron. If progress is made on these issues, which are the outstanding issues of the Taba agreement, I believe that the final-status issues will need some time before progress is made, especially since the Israeli Government, which lacks unanimity, has not yet decided on them — given the inclusion of rabbis and generals in a single coalition government. I believe that the Israeli Government does not hold a unanimous view on these issues. We will see today what will happen at this meeting.

[Al-Barqawi] So this meeting will be the beginning, even though it is clear that you are not optimistic, and that you are attempting to project a realistic tone, which we are required to do. With regard to Netanyahu, after the meeting he held with Egyptian President Husni Mubarak and the meeting between Palestinian President Yasir 'Arafat and the Egyptian president, it seems that we have received some promises through the Egyptian brothers. There are hints that the Israelis will forget about the Orient House in Jerusalem.

[Abu-Middayn] You are well aware that Netanyahu promoted a fallacy during his joint news conference with President Mubarak. You know that Mr. Netanyahu is a skillful media manipulator, especially when he addresses a Western audience. He spoke about walls and the Berlin Wall. He constantly touches this sensitive nerve. In this regard, Netanyahu promoted a fallacy. Berlin was a city that divided two Germanys and Germans. By contrast, the issue of Jerusalem concerns Arabs and Israelis — or Jews, on one hand, and Christians and Muslims, on the other. This is the difference between the two issues. Drawing an analogy between Jerusalem and Berlin is unfair, unjust, and deceptive.

Arab Jerusalem is an Arab city. This is a point of which the Israeli side must be well aware. The entire world does not recognize Western Jerusalem as Israel's capital. The Israelis want us to have an Arab neighborhood in East Jerusalem, similar to the Wadi al-Nasnas in Haifa. This is the way they think. Orient House is not the sticking point. The persecution of Palestinians by withholding of their identity cards, the levying of heavy taxes, including real estate taxes, etc., is meant to cut the Arab presence in Jerusalem to size and settle the issue

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of Jerusalem within the context of a Greater Jerusalem. Israel wants to have a Greater Jerusalem for Greater Israel.

In this endeavor, Israel is not driven solely by ideological or religious reasons, it also by political reasons concerning Israel's future ambitions and expansionist ideas regarding the Arab homeland. Whoever reads Netanyahu's book, titled "A Place Under the Sun," will realize that this man seeks to establish Greater Israel. Given this perspective, assurances that Orient House and similar institutions will continue to operate as usual are useless. We are speaking of an Arab Jerusalem in the broad sense of the term, as a capital of a Palestinian state with its Islamic and Christian holy shrines. You are well aware that letters were exchanged on Jerusalem. These letters stipulated that the PLO institutions in East Jerusalem will not be closed down. This is known to all sides. We exercised this right at the Madrid conference and also during the Likud rule under Shamir. Now, during Likud's second rule, there is an attempt to settle the Jerusalem issue before it can be discussed at the negotiating table. I have some reservations regarding the statements about an open Jerusalem. We want open borders everywhere. We want Qalqilyah, Tulkarm, Kafr Saba, and Tel Aviv to be connected. Likewise, we want Gaza to be connected with al-Magdi'el and Beersheba. We are not opposed to the notion of open borders. However, Israeli and Western media are promoting deceptions regarding the notion of an open Jerusalem. Even some Palestinian officials have made the mistake of using this term. There are two Jerusalems. There can be no open Jerusalem with one municipality. There will be two Jerusalems in the future: an Arab Jerusalem and a Jewish Jerusalem. Otherwise, this substantive issue will not be resolved.

[Al-Braqawi] Jerusalem is one of the final-status issues. So is the settlements issue. The Israeli press has hinted that Netanyahu made promises to President Mubarak during their closed meeting. It was reported that Netanyahu promised the Egyptian president that Israel will not build new settlements and that Israel will remain content with expanding existing settlements.

[Abu-Middayn] Brother Fathi, with regard to the issue of settlements, the Labor-led government made the clearest possible pledges to the U.S. Administration under Bush when it obtained the $10 billion in loan guarantees. Netanyahu bared the scandal when he said that the Labor-led government expanded settlements by 50 percent here and there. It is not a personal crisis of mistrust. The heart of the matter is that the Palestinian people mistrust Israel, particularly with regard to the settlement issue.

If you drive your car from north to south in the West Bank, or vice versa, you will find this frenzied settlement activity has not stopped for a moment. This is the problem. They want to create a foreign body in the heart of the future Palestinian state.

In the future, Netanyahu might argue that what needs to be resolved is the issue of security between Palestinians and settlers, and not between the Palestinians and Israel. This is where the danger posed by settlements lies. The Israelis must realize that settlement activities are illegal and that settlements must be dismantled. There are attempts to consecrate settlements. The goodwill promises made in closed chambers by Netanyahu, or others for that matter, are useless. It is Israeli bulldozers that enjoy the protection of the tanks that are making Israeli policy in this regard. Concrete moves would inspire trust, not the promises or hints made in closed chambers.

[Al-Barqawi] So, what you are saying is that the Israeli pledges are worthless.

[Abu-Midday] To date, that is true.

[Al-Barqawi] The meeting between President Yasir 'Arafat and David Levi, which is scheduled for today, will produce nothing except some promises, as you said at the beginning of this dialogue.

[Abu-Middayn] Levi is not in the habit of making promises. Levi and 'Arafat might exchange views. There will be no promises with regard to the issues under discussion. This is because, as I have already said, he is not mandated to settle any issue or to make promises regarding any issue. Levi will be asked about Hebron. How will he answer this question? He will also be asked about the secure passage. How will he respond to this? His answers will be important.

The closure that has destroyed the Palestinian economy will also be brought up at the talks. These are not topics for the final-status talks. The Israelis admitted in the United States and Egypt that these issues need to be settled. We will see tomorrow [as heard] whether the talks will be a public relations event or the first step toward settling the outstanding issues of the interim period, paving the way for the final-status talks. May God help us, because it is hard to make heads or tails of this Israeli Government, as the saying goes. I believe that we will know everything in this regard by the end of the day.

[Al-Barqawi] We only have to wait and see. We have always been waiting. Thank you and good morning.

[Abu-Middayn] You are most welcome.

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Palestinian Affairs: PNC Speaker on Return of 'Destruction of Israel' Clause

NC2307080896 Cairo MENA in Arabic 0700 GMT 23 Jul 96

[FBIS Translated Text] Cairo, 23 Jul (MENA)—Palestine National Council [PNC] Speaker Salim al-Za'nun has threatened that the Palestinian Authority will reactivate the clause, "The Destruction of Israel," hitherto struck off the Palestinian National Charter, if the current Israeli Government led by Binyamin Netanyahu goes back on what the former prime minister announced.

In a statement to AL-'ALAM AL-YAWM today, al-Za'nun warned that if the Palestinian citizen feels that peace negotiations are futile then the people's intifadah [uprising] will return. It will be hard to contain, whether by the Palestinian Authority or by the Israeli authorities—no matter what extraordinary measures may be used.

Al-Za'nun maintained: We will keep on urging the international community to help us retrieve our legitimate rights. He added: We will also preserve what we have by any means, even if it means being patient for the next four years, while Netanyahu is prime minister, and continuing the struggle on every front.

Palestinian Affairs: Official Denies Israeli Reports of Siege Easing

JN2207185096 Jericho Voice of Palestine in Arabic 1800 GMT 22 Jul 96

[FBIS Translated Text] Zakariya al-Madhun, director general of the Economy and Trade Ministry, denied Israeli reports about an easing of the military siege imposed on Palestine for several months.

In a statement to the PALESTINIAN NEWS AGENCY, WAFA, al-Madhun said that no permits were received by traders and businessmen, and emphasized that the Israeli military siege has not been eased.

He asked Israel to immediately open the crossings and allow free movement and trade exchange between various Palestinian governorates, and stressed that the National Authority is making great efforts to provide citizens with necessary consumer goods.

Palestinian Affairs: Shaykh Hamami Denies Speaking in Name of Hamas

TA2207165196 Jerusalem Qol Yisra'el in Arabic 1430 GMT 22 Jul 96

[Report by Yasir 'Atilah]

[FBIS Translated Excerpt] Shaykh Jamil Hamami, one of the most prominent Islamic figures in the West Bank, stated in an interview which we conducted with him this morning that he is not a Hamas [Islamic Resistance Movement] spokesman nor close to the movement.

[Begin Hamami recording] I am neither a Hamas spokesman nor close to the movement. I have may own private positions that are different from those of Hamas. Moreover, in no way do I express Hamas' viewpoint. [end recording]

Hamami added that in light of the transformations in the Israeli arena following the change of government in Israel, I call on all Palestinian forces, including the Palestinian Authority, to close ranks in order to confront the coming political stage. Shaykh Hamami believes that it is incumbent on everyone to participate in the building of the Palestinian state, but he stresses that he absolutely is not speaking about Hamas' participation because this is its own concern.

[Begin Hamami recording] I did not speak at all about the possibility of the participation of Hamas or those close to it in the government. This is its own and their own concern. Hamas makes the decisions and I have no authority to speak on behalf of anyone. [end recording] [passage omitted]

Palestinian Affairs: Hamas Spokesman Criticizes PA's Policy

NC2207192896 Tehran Voice of the Islamic Republic of Iran in Arabic 1730 GMT 22 Jul 96

[Telephone interview with Ibrahim Ghawshah, official spokesman of the Islamic Resistance Movement, Hamas, by Hani Dayghami; place and date not given]

[FBIS Translated Text] [Dayghami] Jamil Hamami yesterday stressed that negotiations with Israel will continue, even though Binyamin Netanyahu's ascent to power is considered to be dangerous to the Palestinians. In your view, how does Hamami justify the continuation of negotiations when Netanyahu himself stresses that he will not discuss the Jerusalem problem or withdrawal from south Lebanon and the other occupied Arab territories?

[Ghawshah] It is well known that the Palestinian Authority [PA] pursues a pragmatic line that keeps changing. What counts to the PA is that its head remain above

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water regardless of any other issue. It seems that the PA is very keen on meeting with Netanyahu and begin a new stage with him. The PA is ready to swallow all its previous reservations. It seems that Jamil Hamami understands this situation and is trying to express it. Regrettably, the PA, which claimed that it began negotiations on the final issues, is now forced to begin with Netanyahu on pending issues from the transitional stage, such as redeployment of the Israeli forces in Hebron, a safe passage, and many other issues. The end result is that the Palestinian issue has witnessed a great reversal at the hands of the PA. There is no doubt that the Palestinian people in the occupied area are in a state of frustration and wrath because of the negative results the PA has achieved.

[Dayghami] The Palestinians in the occupied territory hoped that the negotiations with the Israeli Government would lead to positive results, how did they feel after Netanyahu assumed power?

[Ghawshah] Our people in the occupied land are in an unenviable situation. The Zionist siege and arrogant practices are continuing. It was said that the restrictions would be eased. The PA's random practices—it seems that the PA abducted a citizen from the Jerusalem area and brought him to the Ramallah area to force him to withdraw a case against the Coptic church, in order to appease the Egyptian Government. This incident prompted the Israelis to tighten the restrictions on the Palestinian people. This is just an example that shows that the PA is fumbling in confusion. In the village of Qaryut, the Israeli settlers beat defenseless Palestinian civilians. This situation is increasing anger and despair among our Palestinian people. They have lost hope that the PA will attain any of the achievements it claims it will make.

Palestinian Affairs: Hamas Cadres Reportedly Pushing for al-Zahhar Dismissal

JN2207202696 Amman AL-MAJD in Arabic 22 Jul 96 p 1

[FBIS Translated Text] AL-MAJD learned that intensive contacts are currently under way among leading figures of the Hamas [Islamic Resistance] Movement inside and outside the Palestinian areas to adopt a firm and conclusive stand toward Dr. Mahmud al-Zahhar, who frequently makes negative statements. Al-Zahhar made the last such statement only a few days ago when he said that Hamas' martyrdom-seeking operations are a strategic mistake and negatively affected the Palestinian national unity.

Sources close to the Hamas Movement said that the movement's leadership started to feel embarrassed before its cadres, whose patience had ended, and who began applying the strongest pressure on the leadership to dismiss al-Zahhar from Hamas as soon as possible.

Palestinian Authority's [PA] sources in Gaza said that al-Zahhar's latest statements were made at the request of the PA to appease Israeli Prime Minister Netanyahu and convince him not to oppose the PA's release of a number of Hamas detainees.

The sources told AL-MAJD that al-Zahhar was extremely dismayed with the Hamas statement rejecting his remarks, given that the harshly critical statement was issued in the name of the entire movement, rather than a particular individual. This gave observers the impression that the statement reflects a collective viewpoint inside the movement, and not the position of a certain individual or group as was the case when Engineer Ibrahim Ghawshah, the movement's official spokesman, used to react to al-Zahhar's statements.

The PA's sources said that al-Zahhar attacked Hamas' leadership based abroad in his special meetings throughout last week. In particular, he attacked Ibrahim Ghawshah and 'Imad al-'Alami, whom he accused of issuing the strongly worded statement which came in response to his remarks.

Palestinian Affairs: Al-Akhbar—'French Sources' Say U.S. Army Behind TWA Crash

TA2207121496 (Internet) AL-AKHBAR in English 21 Jul 96

[FBIS Transcribed Text] French sources report today that French Defense Ministry experts say it is possible that the TWA Boeing 747 which exploded Thursday [18 July] was accidentally hit by a missile fired by a US Army unit.

According to sources, the French experts believe that if reports about a surface-to-air missile hitting the plane are confirmed, the infrastructure needed to fire a missile powerful enough to hit a plane at that altitude is only possessed by army units. The possibility that a Stinger missile could hit the plane is being rolled out by the French.

The French experts say human or technical error could have led to the TWA crash. The experts say that if the TWA plan was shot down by mistake by a U.S. military unit, it is unlikely that the U.S. army will admit it. Years ago, a US Navy plane shot down an Iranian civilian plane over the Persian Gulf killing more than 180 passengers.

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Palestinian Affairs: 'Arafat Receives Japanese Foreign Ministry Official 22 Jul

JN2207195996 Gaza Palestinian Broadcasting Corporation Television Network in Arabic 1800 GMT 22 Jul 96

[Announcer-read report over video]

[FBIS Translated Text] President Yasir 'Arafat received Mr. (Noporo), director general of Middle East affairs in the Japanese Foreign Ministry, this evening. The Japanese official was accompanied by the Japanese ambassador.

The two sides reviewed the latest peace process developments in light of the Israeli stands seeking to destroy the peace process and return the region to the whirlpool of violence.

Arab-Israeli Talks

Arab-Israeli Talks: Levi, 'Arafat To Meet 23 Jul on Palestinian Side of Erez

TA2207152596 Jerusalem Qol Yisra'el in Hebrew 1500 GMT 22 Jul 96

[FBIS Translated Text] Foreign Minister David Levi will confer with Yasir 'Arafat tomorrow. The meeting will be held on the Palestinian side of the Erez checkpoint, a senior Palestinian Authority [PA] official announced. He told our correspondent Yoni Ben-Menahem that 'Arafat considers himself more senior than Minister Levi and insists that the meeting take place on the Palestinian side because a meeting at the DCO [District Coordination and Cooperation Office] on the Israeli side of the checkpoint would be perceived in the territories as capitulation on the part of 'Arafat to Israel's dictates.

Arab-Israeli Talks: Ross, Christopher Reportedly To Discuss 'New U.S. Plan'

JN2207201296 Abu Dhabi AL-ITTIHAD in Arabic 20 Jul 96 pp 1, 30

[Report by Rafiq Nasrallah in Beirut]

[FBIS Translated Text] AL-ITTIHAD has learned that peace process coordinator Dennis Ross will visit regional capitals within the next two days to review the details of a new U.S. plan. The plan will also be discussed by U.S. Secretary of State Warren Christopher when he visits the region. The U.S. plan includes the following four basic points:

1. Giving fresh momentum to the Palestinian track, and securing a meeting between Israeli Prime Minister Binyamin Netanyahu and Palestinian President Yasir 'Arafat after holding an expanded meeting of senior delegates from both sides.

2. Easing angry Arab reaction to Netanyahu's statements through a declaration by Christopher that the United States supports the peace process in accordance with the Madrid conference in order to reassure Arab capitals that have voiced concern over statements indicating that the Israeli prime minister abandoned the principle of land for peace.

3. Preserving the April Understanding which was recently reached under the auspices of the United States, and giving momentum to the upcoming meeting of the monitoring committee in al-Naqurah during the next two weeks. The committee will include delegates from Syria, Israel, Lebanon, the United States, and France.

4. Shedding light anew on the resolutions reached in the aftermath of the Sharm al-Shaykh summit — resolutions which the United States sees as a guarantee for Israel and the other parties.

Western diplomatic sources in Beirut pointed out that Christopher will undertake shuttle tours between Damascus and occupied Jerusalem that will focus on two files:

First: Preserving the April Understanding and keeping the situation in southern Lebanon under the canopy of that understanding.

Second: Easing the tough languages of Israeli and Syrian officials over the past weeks.

These sources asserted, however, that Christopher would not offer any specific initiative to activate negotiations between Syria and Israel.

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Algeria

Algeria: Correction—New Armed Islamist Group Formed

LD2207170696 Paris LCI Television in French 1015 GMT 22 Jul 96

[Corrected version of LD2207105996, published on page 15 of the 22 July Near East and South Asia Daily Report; correcting name and vernacular of Islamist organization]

[FBIS Translated Text] A new armed Islamist organization has announced its creation in Algeria. The Islamic Movement for Spreading the Faith and the Jihad [Mouvement Islamique pour la Predication et le Jihad] is led by a former leader of the GIA [Armed Islamic Group]. The new organization has called on all fighting sections to put themselves under its protection, in order to consolidate its force and continue the jihad.

Algeria: Authorities Take Action Against Press

LD2007201796 Algiers LA NATION in French 9 Jul 96 pp 8,9

[Article by Abed Charef: "God's Gift to Politics — By Dint of Considering Itself God's Gift to the Country and Political Life, the Press Has Turned Into a Black Ox, Which Was Eaten Up When the White Ox, the Parties, Attacked"]

[FBIS Translated Text] The press is taking action. Once again, newspapers are putting themselves at the heart of events, and are getting involved in a vicious game that the authorities are winning. Not in terms of pictures, political sympathy, or support from the population, but in terms of balance of power, which is the only one in current use in Algeria.

It is always the same scenario. It all starts with written words, this time a cartoon that the authorities have not appreciated. Then harsh decisions, ranging from the suspension of the newspaper to the arrest of the journalist, are taken by the judicial authorities. Journalists react with general assemblies, petitions, and staggering statements. [The international organization] Reporters Sans Frontieres [Reporters Without Borders] appeals to President Liamine Zeroual, and then numerous strike threats are made.

Meanwhile, the journalist concerned is in jail, his newspaper is losing money and is sometimes forced to close down. The authorities are insisting that they are doing everything by the book, and that the judiciary is independent and that it alone can decide the matter. At the end of the day, the journalists who have been killed or thrown into jail become merely the object of statistics, displayed by other journalists travelling abroad.

The human dimension of such crises is completely ignored in favor only of the political dimension. Even the unanimity that emerges around demands for the release of a detained journalist is only very temporary and is soon replaced by narrower and more partisan visions, which are sometimes simply linked to affairs where big money is involved.

The Chawki Amari affair thus momentarily brought together journalists because of a decision by the authorities, which was harsh as well as arrogant. However, this affair follows another one, much less honorable, namely the one relating to the invitation of about 60 foreign journalists who were supposed to come to Algeria on 4 July, to attend a major debate on freedom of the press.

The meeting was cancelled after the authorities refused to grant entry visas to those journalists who included prominent names of the French press and who, like their Algerian counterparts, were divided between eradicators and advocates of reconciliation, sympathizers of the FFS [Socialist Forces Front] or Said Saadi, rare sympathizers of the FIS [the banned Islamic Salvation Front] or HAMAS [Islamic Society Movement], and even rarer sympathizers of the FLN [National Liberation Front].

Their visit was due to take place on the eve of the anniversary of Algeria's independence, and this was interpreted by the guardians of the temple as another French landing. By pulling the right strings, the authorities managed quite easily to find followers willing to sign a petition opposed to the holding of that meeting. They were found among the large number of bureaucrats who run state-owned press companies and among the official and unofficial zealots.

The surprise, if we can call it as such, came, however, from the associations of journalists. The famous Association of Algerian Journalists [AJA], which for so long monopolized speech on behalf of journalists, dead or alive, rushed to respond favorably to the appeal of the decision-makers who were opposed to the arrival of foreign journalists in Algeria. By doing so, the association appeared in its true colors, namely as a satellite organization, perfectly disguised as an independent association, but extremely obedient when necessary. The recent crisis has at least shown that we could not be under any illusion about this organization or, for that matter, about the famous civil society.

The newly created National Union of Algerian Journalists [SNJA] did not last very long either. Faced with the first major test, its president, Larbi Chaabouni, allied himself with the authorities and packed up and went, thus announcing his rapid end. As an apparently open

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organization, boasting a diversity of views from members who mostly belong to a new generation of journalists, the SNJA managed, in very few months, to give itself a fairly friendly image, at least less tied to the authorities and the circle of eradicators than the Association of Algerian Journalists. By taking his distance from the stance adopted by his president, Faycal Metaoui, the second-in-command in the SNJA, has somewhat saved the honor of the organization, but the harm has already been done.

Journalists no longer have an organization, not even vaguely representative. The very official Union of Information and Culture Workers, made up of agents of the administration, is not in a position to say otherwise either.

It is therefore a corporate body, torn apart more than ever before, which has to face up to a particularly difficult situation. The spontaneous demonstrations of mobilization, on the occasion of a tragedy or the arrest of a journalist, are not enough to talk about solidarity. We can, at the most, talk about intentions, often sincere among ordinary journalists, but which are prompted, more often than not, by prevailing political and financial calculations.

Unlike this absence of organization, which leads to a tragic absence of strategy among journalists, the authorities have demonstrated implacable coherence and logic, as shown by the decisions made on the occasion of the commemoration of Independence Day on 5 July.

This time the authorities acted on the symbols. They have said that they consider the arrival of French citizens, on such an anniversary, to teach Algerians lessons on democracy, as shocking. The argument is worth what it is worth, but it struck a cord with some journalists and a number of citizens.

Moreover, in order to prove that the journalists are mistaken and give little consideration to the symbols of national sovereignty, the authorities gave an exaggerated media coverage to the cartoon done by Chawki Amar and said that it sullied the flag. Thus, through the arrest of the cartoonist from LA TRIBUNE, the authorities are sending the following message to public opinion: "There you are, we had already told you that the journalists do not respect the symbols of the nation. Not only do they invite foreigners, French nationals, what is more, on the commemoration of Independence Day, but they also give us the irrefutable proof that they have no respect for the values of the country."

From this perspective, the authorities are scoring important points against the press. Not only have they managed to discredit the existing organizations, but they have also taken the lead in the preparation of the upcoming political events. In this respect, the authorities appear to have more foresight than their adversaries, because faced with almost a total opposition to the presidential memorandum and with the reactions that the press will definitely echo, the authorities deemed it useful to take on this press and its credibility. Even if the authorities know exactly what to expect with regard to the credibility of the press, any general hostility from the press, in case every newspaper echoes the ideas of the current or clan it represents, could hamper the authorities in their efforts to pull off the next political events. First of all, the national conference, which seems to have started on the wrong footing.

Therefore, after failing to demonstrate any strength, the authorities chose to weaken their adversaries. By systematically taking on the parties for five years, they have managed to reduce their influence, even if they the authorities have not, for all that, succeeded in extending theirs. Today, they are taking on the press, which obviously does not realize that its freedom depends first of all on the freedom of parties, all the parties, be they influential or small. It is the story of the white ox.

Algeria: FIS European Supporters Issue Newsletter

MS1907133696 Southall THE ENLIGHTENMENT in English 19 Jul 96

[Newsletter "publicizing the Islamic Struggle in Algeria," published by Islamic Salvation Front "supporters in Europe"; quotation marks as received — received via Internet]

[FBIS Transcribed Text]

Editorial: The dictatorship living by "holding information, holding power"!

The media black out imposed by the military regime on the Algerian situation has been the principal cause for the conflicting type of images that reaches the outside world. On the other hand, the regime monopoly on public domain information has made what is left of the increasingly shrinking "freedom" of the independent press, irrelevant as it can not enlighten the public opinion properly about REAL issues of the moment and with enough depth. The effect of the monopoly on public domain information has not affected only the press but also the political class and institutions founded by the military Junta since 1992 such as the non-elected "parliament" CNT. As for as the so-called independent press is concerned, it has been strongly pushed into the role of complementing the regime propaganda apparatus and given its relatively better credibility, has become by force, a powerful instrument

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of deceiving public opinion. It took more than a year for the public to learn about the malicious document sent to the journalists by the military regime propaganda ministry ordering them to demonise the Islamic armed resistance's image in detailed terminology. So the press instead of informing objectively, was doing the propaganda job of tarnishing the image of the regime's opponents thus brightening that of the later and all this without the public knowledge. Except for one or two independent journals which had a continuous hard time with the regime tied censorship, most of the independent press has distorted the image and message of the parties members of "national contract" at the time of their political initiative. More recently and during last week Organisation of African Unity summit, a letter was sent to the secretary general from the program coordinator Middle East and North Africa of the Committee to Protect Journalists. The content of the letter bares the personnel style of a well known Algerian editorialist who is also an influent member of that committee. The letter talks about instructions given to the press prior to General Zeroual elections and in which the regime warned the editors "that if they printed calls to boycott the election or published anything that might discourage voter participation, they would face prosecution for civil disobedience!". So much for the regime propaganda about its free elections! The effect of public domain information monopoly on the political parties has been that, most of them can not draw a realistic program to present to the Algerian people. If very few have a sound political based program matured over long years of opposition practice, many are promising to turn Algeria into a paradise but their "programs" have the particularity of being "allergic" to precise figures, concrete budget constraints and real limitation of available resources. For some parties, this is due to a genuine lack of information inherent to the monopoly, for others which are not much different from the regime if not worst and are known to not hesitate in deceiving people in order to get to power, for them, monopoly or not is not an issue! As for the Junta-made institutions such as the artificial non-elected parliament which job is supposed to enlighten the military regime government about any short comings in its program, they also lack information. One has only to hear the debate the nominated "deputies" have had with the regime government during the presentation of the complementary budget last week, to understand how easy it was for Mr Ouyahia's ministers to make the "deputies" "swallow" anything and any lies they wanted to. The talk of the "deputies" turned to generalities such as " what you said and what we think it is, does not seem to be the same thing!" but not a single prove or figure to back up any argument. This is on the top of the fact that most of them are docile yes-sir incompetent opportunists! In Algeria, the battle against the press censorship and against the monopoly on public domain information should be pushed forward in terms of priority because a big (if not the biggest) part of the regime eternalising the status-co is in its hold to power according to the French adage: "Qui detient l'information, detient lepouvoir" (whoever holds information, holds the power)!

The crack down on the freedom of press continues!

A large group of Algerian journalists have called for a boycott of all official activities coverage. They have also called for the organisation of a "national gathering for the freedom of the press" with the participation of political parties. The origin of the actual wave of protest was the arbitrary arrest of a journalist from LA TRIBUNE newspaper and the closure of its office because the military regime did not find funny one of Chawki Amari cartoons.

The "courts of injustice" continue their sinister job!

The Bouira military regime "court of injustice", has distributed 128 death sentences last Sunday. Nobody believes in the military "justice" any more, even the families of the victims are not convinced that those sent to death are the real killers. After the wife of Kasdi Merbah an ex-prime minister killed in 1993, who said to the military regime officials who came to the funeral of her husband, "you killed him", this time it is another widow who is accusing. Six death penalties were "distributed" by the Tizi Ouzzou military regime "court of injustice" last week in relation with the killing of Mustapha Abada the director of the national TV station ENTV. According to Mrs Abada who was present in the tribunal, she said to the press:" The people that were in the accusation box have nothing to do with the assassination of my husband. They are my neighbours and my students!". She also added: "There is only one assassin of my husband and not thirty six. He shot my husband and went away in no hurry. He has been seen by a neighbour and one of my husband's nephews. These two visual witness were never heard after their first audition [interview] following the murder. It was even published in the press that the assassin of my husband was shot during a crossfire. I wounder how they concluded that he was my husband's assassin, and I told this even to the security services."

"Air Algerie" airline company maintains the strike!

The Algerian airline company Air Algerie has entered another week of protest and has continued its strike.

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The syndicate of the pilots has maintained its two days a week job action where aminimum service is maintained. While the "collective convention" specifies a required minimum service of 14%, the good will of the union has always covered more than 26%. The military regime prime-minister is playing the "though guy" with a stubbornest typical of all incompetent people. Instead of solving their salary demands which it must be said was triggered by his unpopular and irresponsible decisions of tempering with the pilots and other qualified personnel wages, Mr Ouyahia has decided to hire other foreign airlines company to do the job at an exorbitant cost. This illegal action of indirectly "breaking" a legitimate strike is thought of by many as a deliberate provocation to push the pilots into making mistakes of an impulsive order. By according to some observers, the syndicate (union) have decided to play it within the law and soon to GRADUALLY increase the pressure by increasing the number of days in strike. Mr Ouyahia has been using illegal intimidation toward the pilots to resume work by sending them war-like letters of requisition. The financial situation of Air Algeriahas deteriorated sharply since the nomination of an army officer who did not have the management competency but had enough "capital of thrust" from an army General but useless for the Air Algerie company. He has left the company few days before the strike leaving a mess behind. While the pilots union is uncompromising in its will to stay independent of any political party manipulation, observers area sking what are the political parties doing to stop Mr Ouyahia policies of plunging the country into an early economic chaos by preferring to waist the much needed hard currency instead of solving the salary of hard working people. This strike has cost the company many fold what it needed to solve the problem. When is Mr Ouyahia forced to recognise his mistake and behave responsibly and not as a manager of his own private company!

Egypt

Egypt: Musa on Mubarak's U.S. Visit, Netanyahu, Peace

NC2207171696 Cairo MENA in Arabic 1526 GMT 22 Jul 96

[FBIS Translated Text] Cairo, 22 Jul (MENA)—Egyptian Foreign Minister 'Amr Musa has stated that President Husni Mubarak's visit to the United States in the coming days is basically part of the peace process in light of recent developments in the region and the general atmosphere, which is marked by concern over the current situation and the future of the peace process.

In press statements today, Musa said Israeli Prime Minister Binyamin Netanyahu's language during his recent visit to Cairo was different from what he had said on other podiums before. He added that one of the most important differences in this respect was Netanyahu's statement about commitment to the Madrid framework and bases.

Musa emphasized that if this development is linked to or based on a political will to act according to the bases agreed upon in the peace process, then we can assume that there has been progress.

Musa explained that what Netanyahu said in Cairo must express a political will to press ahead with the peace process according to the bases agreed upon and that policies and measures proving and testifying to that willingness should be adopted.

Musa said the U.S. role in this context is important because the role of the United States as a sponsor of the peace process having ties with both parties is needed now more than ever before.

He noted that the claim that the U.S. policy is paralyzed or impotent during elections is absolutely untrue. This is, he said, because the superpowers are countries with great international obligations who cannot afford the luxury of taking a break for four or five months.

He added that since the United states has an effective, desired, and needed role in this capacity and is a sponsor of the peace process, Egypt too equally needs to have the same characteristics for the same reasons. The aim is for Egypt to assert to the United States the current requirements for the peace process, the importance of moving quickly, without delay, the need to pick up the peace process where it stopped, and that the peace process cannot start over from the beginning, because this is not right but would be rather very serious.

The Egyptian foreign minister called for maintaining the practical framework of the problem and the framework of the Arab-Israeli peace. He said President Mubarak will go to the United States in several capacities. In addition to being Egypt's leader, he is the current chairman of the Arab summit; and Egypt is committed to the Arab summit's resolutions, he added.

Musa said the summit's communique is considered a framework to which Egypt and all the other Arab countries that issued it are committed. The communique, he remarked, expresses concern over the current developments in the peace process.

Musa said that after hearing the tone with which the Israeli prime minister spoke in Cairo, which opened some doors and raised prospects, "we now expect" progress on the Palestinian track itself and on other tracks. He added that, in light of this different tone, some

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prospects may exist for resuming the peace process in a sound and proper way.

In response to a question about Netanyahu's different tones in Washington and Cairo, Musa stressed that Egypt does not pinpoint mistakes made by other countries, including Israel, adding: We do not need and are not in a position to return to confrontations; we want to continue with the peace process. He said: We have no reservations about any particular person. What counts is to see positive policies adopted that are based on the agreements and principles already reached in order to resume the peace process.

Asked if Egypt will propose a military agreement during President Husni Mubarak's visit to the United States, Musa said: We are not going to the United States to talk about military affairs. We want to talk about peace. He added: We are surprised that Netanyahu discussed military issues during his visit to Washington while he was talking of peace. There are some questions regarding what Netanyahu said. We are moving toward peace and not seeking an arms buildup or seeking certain strategic transformations or axes. All these things would harm not only peace but stability in the region.

Musa pointed out that the other issue that will be discussed during President Mubarak's visit to Washington is Egyptian-U.S. relations, which he described as strong and interrelated, adding that continuing and boosting these ties is in the interest of both countries. He noted that these relations are not limited to or only dependent on aid, noting that there is active trade between the two countries. He said that Egypt wants to encourage U.S. investment in Egypt and to increase it many fold along with the international capital available in Egypt.

Noting the Mubarak-Gore initiative for economic cooperation between Egypt and the United States, Musa said that it is a good initiative that involves economic spheres, transfers of technology, and modernization of education in Egypt. He said that his visit to the United States before President Mubarak's is to prepare for Mubarak's visit and to hold contacts and meetings with numerous investment sectors and the Egyptian community. He said that he will also meet with a number of U.S. officials to discuss political issues relating to the peace process and bilateral ties in preparation for Mubarak's visit.

In response to a question on the peace process, Musa stressed that Egypt believes that it is in the interest of all parties to establish a fair, permanent, and equitable peace in the region. He said: We have no interest in a distorted peace or peace that serves one party, because this will not lead to stability and will not be acceptable to any one.

Musa said that Egypt's interests lie in a fair and equitable peace, something which President Mubarak emphasized in his speech today marking th. 3 July revolution anniversary. He noted that Mubarak emphasized that a real peace is a fair and equitable one and that the Arabs will extend their hands to Israel as much as Israel extends its hand to them. He described this policy that Egypt endorses as balanced and said that Egypt will follow it in all its contacts.

Musa will leave for the United States early tomorrow morning, Tuesday, and will visit Los Angeles, New York, and Washington. In Los Angeles he will meet with representatives of U.S. companies and members of the Arab community to publicize the Egyptian economy. He will also meet with representatives of the American Jewish community on the West Coast and will then leave for New York to meet with members of the Foreign Relations Council and the American Jewish Congress members. Musa will then leave for Washington to deliver a speech at the Strategic Studies Center and meet with representatives of the Arab community. These contacts along with the political talks with U.S. officials are within the framework of preparations for President Mubarak's visit to the United States next week. The delegation accompanying Musa includes Ambassador Nabil Fahmi, political adviser to the foreign minister; Ambassador Salamah Shakir, deputy assistant foreign minister for U.S. affairs; and Ambassador Hajar al-Islambuli, Egyptian consul general in San Francisco.

Egypt: Musa on Butrus-Ghali Nomination, Russian Role in Peace

NC2307111996 Cairo MENA in Arabic 0900 GMT 23 Jul 96

[FBIS Translated Text] Cairo, 23 Jul (MENA)—Foreign Minister 'Amr Musa stated that diplomatic contacts have been highly active recently to support the renomination of Dr. Butrus-Ghali to the position of UN secretary general for a second term.

The foreign minister said in statements before leaving Cairo this morning for the United States to prepare for President Husni Mubarak's visit there, that contacts have been activated in various directions, even with those opposing the renomination.

'Amr Musa once again affirmed Egypt's full support for Butrus-Ghali's renomination in view of its confidence in his person and work.

Answering a question on whether Palestinian President Yasir 'Arafat asked Egypt to convey to the United States a message on the conditions and suffering of the

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Palestinian people, 'Amr Musa said: This matter does not require a request from President 'Arafat. He pointed out that there is full coordination between Egyptian and Palestinian diplomacy.

On his opinion regarding the change that has taken place in the Israeli stance recently, after the meeting between Mubarak and Netanyahu, Musa said that the expected meeting between Palestinian President Yasir 'Arafat and Israeli Foreign Minister David Levi falls into the correct course and within the framework of bolstering the peace process. In addition, withdrawal from Hebron is also a required step, more so today than at any time previously, and is considered a step in the right direction.

Answering a question on whether the Russian role, along with the European role, could strike a kind of balance in the peace process, 'Amr Musa said that the Egyptian-Russian final statement issued at the conclusion of his visit to the Russian Federation, which will be distributed as an official document in the United Nations upon request from the ambassadors of the two countries, Egypt and Russia, clarifies the Russian stance.

The foreign minister described the Russian stance as an important one since Russia is a cosponsor of the Middle East peace process. In addition, Russia is an important country and a superpower that has many good relations and contacts with the Arab countries.

Musa clarified that if the important Russian role is added to the European and U.S. roles, there could be enough momentum to activate the peace process in the right direction.

Answering a question on the fate of the issues in dispute on the agenda of the upcoming summit between President Husni Mubarak and U.S. President Bill Clinton, 'Amr Musa said that it is not a condition for the two sides to agree on all issues. There might be some issues of agreement, while other issues might be issues of dispute. There is nothing wrong with this.

Egypt: EU Ambassador Meets Musa, Comments on Partnership Talks

NC2207135596 Cairo MENA in Arabic 1250 GMT 22 Jul 96

[FBIS Translated Text] Cairo, 22 Jul (MENA)—Egyptian Foreign Minister 'Amr Musa met today with the European Union [EU] Ambassador in Cairo Michael McIver [name as transliterated] at the end of his tour of duty in Egypt.

The ambassador said after the meeting that he and Musa discussed the progress and importance of the European-Egyptian partnership negotiations and hoped they will be completed soon.

He added that some outstanding issues need to be resolved in order to complete the negotiations. He said no date has been set for the next round of the partnership negotiations, noting that contacts about them will resume in September.

The European ambassador hoped that the outstanding issues in the negotiations, especially in the economic sector, will be settled. He praised the developments in Egypt and the region during his five-year stay in Egypt.

Ambassador McIver has been nominated to be the EU's ambassador to India. He will leave Cairo early in August.

Egypt: Al-Baz Says Mubarak 'Very Impressed' by Netanyahu

TA2207141596 Tel Aviv YEDI'OT AHARONOT in Hebrew 22 Jul 96 p 12

[Report by No'omi Levitzky]

[FBIS Translated Text] Usamah al-Baz, the Egyptian president's special adviser, said "Mubarak was very impressed by Netanyahu. He found the Israeli prime minister to be an excellent listener, keen to learn, open-minded, and straightforward."

"Mubarak knows that Netanyahu is new in his job and he did not want to pressure him," said al-Baz, "but the Israeli prime minister promised him a few things:

"First, to fulfill all the agreements and commitments Israel signed with the Palestinians, which includes the redeployment in Hebron and the next phase of the redeployment in the West Bank. Second, to start the talks on the permanent agreement soon. Third, to improve the quality of life in the territories. Netanyahu also evinced openmindedness with regard to Mubarak's request to maintain the status quo in Jerusalem."

[Levitzky] Netanyahu leads a right-wing government. In your opinion, how can he uphold the policy Mubarak expects of him?

[Al-Baz] If the Israeli right wing thinks it can live here in peace and security while ruling over part of the Arab nation, then I hereby announce that it will not work. If you Israelis allow the occupation to continue, you will be forsaking your entire moral base, which means that the Holocaust of the Jewish people could recur sometime in the future.

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Egypt: Press Continues Comment on Netanyahu's Visit

NC2007094996 Cairo MENA in Arabic 0635 GMT 20 Jul 96

[FBIS Translated Excerpt] Cairo, 20 Jul (MENA)—President Husni Mubarak has described his 18 July meeting with Israeli Prime Minister Binyamin Netanyahu as an advanced step that will open wide vistas and generate less pessimism about the peace process. In a statement to AL-AHRAM published today, President Mubarak said that there are differences in method over some issues but there is agreement on the need to reach the goal of a fair and comprehensive peace.

Cairo newspapers writers today continue to comment on Netanyahu's visit. AL-AHRAM chief editor Ibrahim Nafi' writes that he can say that President Mubarak's talks with Netanyahu were a step forward in the peace process but noted that the way is long and arduous to settle the issues on all tracks. He says that Netanyahu's stance is leaning toward relative moderation and is different from his statements during and after the Israeli elections, particularly his remarks during his visit to the United States.

Nafi' cites observers as saying that Netanyahu's statement after meeting with President Mubarak may lead to a genuine peace if it is geared in a positive direction. Nafi' maintains that there is indeed a possibility to achieve this goal, because Israel realizes the extent of deterioration and gravity in the situation in the region if the peace process is obstructed or suspended. It has become clear, he says, that Netanyahu does not want to be accused of squandering the peace process or backing down on it and thus returning to Israel a state of tension, instability, and wars. He notes that a large proportion of the Israeli people now believe that peace is the choice that will lead to progress and raising the standard of living, even though there is a considerable segment of the Israeli population that rallies around Netanyahi, such as Yitzhaq Shamir and other rightist leaders who are inclined toward fanaticism, intransigence, and violence.

In its editorial headlined "After Netanyahu's Visit," AL-AHRAM says that there are signs of relaxation in the peace process in the Middle East after Netanyahu's latest visit to Cairo. The paper adds that there is still a long way to go and there are still many vague points in Netanyahu's method and view of issues, noting that this vagueness raises doubts about Israeli intentions.

AL-AHRAM says that Netanyahu abandoned his intransigent tone in his political discourse during the joint news conference with President Husni Mubarak. He showed concern for peace and seriousness to act to resume the negotiations, particularly on the Palestinian track. Netanyahu also said that the Madrid framework is the best way for the negotiations and that security and peace are linked.

AL-AHRAM adds that nonetheless Netanyahu's talk of negotiations with each party in a different way, his different program, repetition of his remark that the land-for-peace principle has several interpretations, and his intransigent view on the issue of Jerusalem and settlement projects make us believe that the path of the negotiations will be extremely difficult and that great efforts must be made to reestablish confidence between the Arabs and Israelis [passage omitted]

In his daily column in AL-AKHBAR, Mustafa Amin says that Prime Minister Binyamin Netanyahu in Washington was not the same man who came to Cairo. The first threatens and the other makes peaceful gestures; the first was arrogant, the other humble; the first looked like a conqueror and invader who imagined that he could do anything; whereas the other says Israel is committed to act in line with the Madrid conference framework. The first repudiates all pledges and charters and the other says he is committed to implementing Israel's pledges and agreements with the Arabs. Amin asks which is the real man and wonders if there is a third man in Tel Aviv different from the one who went to Washington and the one who came to Cairo. He said: We view the change that the Israeli prime minister displayed with doubt, suspicion, and reservation and fear that there might be a third man in Tel Aviv different than the other ones who came to Washington and Cairo. He added: We will remain in doubt until the Israeli army withdraws from the territory it occupied in Palestine, Syria, and Lebanon, and until the negotiations with Syria are resumed from the point they reached and not from square one. He adds: We no longer believe words or promises and believe only facts. Concluding, he says what counts is to maintain the unity among the Arab countries that we have achieved and which we believe was behind the great change in the Israeli position. [passage omitted]

In its editorial, the opposition newspaper AL-WAFD says that we did not hear Netanyahu say one sentence, not even by mistake, stating his acknowledgement of the principle of ceding the occupied territory in return for peace, which is the substance of the Madrid conference and UN Security Council resolutions beginning with resolution 242. It adds: "Throughout the news conference Netanyahu remained vigilant and alert and spoke of peace as he understands and demands it and welcomed resumption of talks with Syria without defining the basis from which the new round of talks will stem, whether from the stage reached and on the same basis as with the Peres government or from the concept he endorses of not ceding land." The paper says that Pres-

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ident Mubarak did well when he rejected this resort to trickery and stressed that the principle of land for peace is recognized by all parties and no country rejects it and that these resolutions are written and have no other interpretation.

Egypt: 'Biggest Business Deal' Signed With Israel for Oil Refinery

TA2107154896 Jerusalem Qol Yisra'el in English 1400 GMT 21 Jul 96

[FBIS Transcribed Text] In Cairo, Egyptian and Israeli businesses today signed their biggest business deal for construction of a $1.2 billion oil refinery. The Middle East oil refinery will be built in Alexandria with American and European technical help.

Egypt: Paper Urges Assassins Confessions Rule Out Sudan Ties

NC2207065896 Cairo MENA in Arabic 0510 GMT 22 Jul 96

[FBIS Translated Text] Cairo, 22 Jul (MENA)—The newspaper AL-AKHBAR says the voluntary confessions made to the London-based newspaper AL-HAYAH by three suspects accused of attempting to assassinate President Husni Mubarak in Addis Ababa in June 1995 are sufficient proof of the Khartoum regime's guilt. The paper urges the regime to make a public apology to the Egyptian people and then immediately give up power.

In an editorial today AL-AKHBAR declares that these confessions effectively put an end to the illusory attempts by Khartoum's rulers to mend relations with Egypt. It declares that the only way out is for the Sudanese regime to hasten to hand over the remaining suspects in the sinful assassination attempt so that they can be tried in Ethiopia and to reveal all the circumstances surrounding that filthy terrorist action directed against the president and symbol of Egypt.

The paper says it is unlikely that Egypt will respond to the al-Turabi-al-Bashir regime's attempts to improve ties now that the suspects have revealed details proving this regime's evil intentions and its premeditated plot to carry out the assassination. AL-AKHBAR declares that God wanted this fact to be revealed so as to thwart the scheming of the conspirators.

The paper remarks: President Mubarak's wish to present a role model of Arab reconciliation made him agree to a meeting with 'Umar al-Bashir on the sidelines of the Cairo Arab summit. But the new information that has come to light must compel the Egyptian Government to close the door on any dialogue. Dialogue cannot be held with terrorist rulers and assassins.

Egypt: Al-Alfi Dismisses Charges About 'Excesses' in Jails,

NC2207170996 Cairo MENA in Arabic 1640 GMT 22 Jul 96

[FBIS Translated Text] Cairo, 22 Jul (MENA)—Egyptian Interior Minister Hasan al-Alfi has unequivocally denied any excesses inside Egyptian jails. He emphasized that the international human rights organizations' charges against Egypt in this regard are malicious and aimed at distorting the image of Egyptian security abroad.

At a news conference after opening the first stage of the new police academy, al-Alfi said numerous visits by members of international human rights organizations to Egyptian jails were arranged in the past months. They praised the various services provided inside Egyptian jails, he added.

Al-Alfi commented on meetings of a committee charged with redrafting an Arab strategy to combat terrorism, due to open on Wednesday. He said the meetings will be held according to an agreement reached by the Arab countries' interior ministers during the previous session of the Arab Interior Ministers Council.

He added that these meetings are designed to redraw the strategy according to each Arab country's viewpoint and perspective of terrorism. A precise definition of terrorism will be produced, with which the Arab countries will deal with each other to confront any acts of terrorism, he said.

Libya

Libya: 'National Grouping' Calls For Meeting of Opposition Groups

MM2207161096 London AL-HAYAH in Arabic 21 Jul 96 p 6

[Unattributed report: "Libyan 'National Grouping' Calls For Broadly Based Meeting of All Opposition Groups"]

[FBIS Translated Text] London, AL-HAYAH — The "Libyan Democratic National Grouping" [LDNG] [al-tajammu' al-watani al- dimuqrati al-libi] has urged Libyan opposition factions to hold a broadly based meeting "in order to boost national action and vigorously and decisively confront any attempt to interfere in Libya's affairs by international or regional parties."

The grouping said in a statement it issued the day before yesterday that "our people are now moving from the stage of rejection to the stage of resistance. The credit for this qualitative shift goes to the internal resistance operating secretly and openly."

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The statement pointed to recent incidents in Libya, such as the confrontations in Banghazi between security forces and Islamic groups and the Bu Salim prison "massacre" in Tripoli (the statement says 28 prisoners were killed).

The statement also spoke about the maneuvers conducted by the Libyan Air Force in east Libya two weeks ago, saying: "We know, and so do others, that the Armed Forces have not conducted any maneuvers with live ammunition since the early seventies. The main objective behind these maneuvers is to destroy positions in which some antiregime fighters are believed to be hiding."

The statement said that "the LDNG urges the brothers who previously participated in the preparations for a meeting of all the opposition groups to intensify their efforts once again, and we will support them in order to accelerate the convening of such a meeting with a view to stepping up efforts to boost national action and vigorously and decisively confront any attempt to interfere in Libya's affairs by international or regional parties. The road is long and arduous, and our steps toward the dawn is surrounded by dangers. But our eyes and hearts can see on the horizon what is inflaming our zeal and accelerating our steps toward rescuing the homeland and participating in rebuilding it on foundations deriving their legitimacy from free democratic choice for all Libya's sons."

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Kuwait

Kuwait: Minister Describes Measures Against Security Threat

LD2307095996 Kuwait KUNA in Arabic 0747 GMT 23 Jul 96

[FBIS Translated Text] Kuwait, 23 Jul — The interior minister, Shaykh Ali Sabah al Salim al-Sabah, disclosed in a press interview published today that deterrent measures have been taken to foil the plans of those wanting to violate the security of the State of Kuwait. In an interview with the newspaper AL-WATAN, Shaykh Ali pointed to the existence of a permanent security strategy and plans at the Interior Ministry to fight all forms of crime.

He said that the murders and armed robberies which have been witnessed by the country lately "are considered as occasional incidents which are unusual in Kuwaiti society." He pointed out that the measures adopted by the ministry will limit those crimes.

It is worth mentioning that the National Assembly will discuss in its session today the security report, which was prepared by the Interior Ministry and was submitted to it by the Council of Ministers lately, which contains a detailed explanation of all the Ministry's plans related to safeguarding security in the country.

The National Assembly will also discuss the law on weapons inspection, which was adopted by the commission of the interior and defense at the National Assembly at its latest meeting.

The interior minister stressed that the Ministry and all its apparatuses "will continue their untiring work so as to protect the peaceful Kuwaiti society." He pointed out that some security measures have been intensified and that the number of patrols in public places and in all the streets of Kuwait have been increased.

Shaykh Ali praised the efforts of all the staff of the Interior Ministry and the security men in particular for the measures they have taken to safeguard the country's security and called on them to make more efforts so as to protect the lives and property of citizens and visitors.

The Kuwaiti interior minister stressed that the adoption of the law on gathering weapons will contribute greatly to the elimination of crime and will reduce its rate.

Shaykh Ali warned about the large quantity of weapons left behind by the repelled forces of the Iraqi regime after the liberation of the State of Kuwait and said that the forces in charge of gathering weapons gathered some of them during their work.

Oman

Oman: Minister of State for Foreign Affairs Meets Israel's Gold

JN2207124896 Muscat Radio Oman Network in Arabic 1200 GMT 22 Jul 96

[FBIS Translated Text] Yusuf Bin-'Alawi Bin-'Abdallah, minister of state for foreign affairs, received Dore Gold, political adviser to the Israeli prime minister, in his office this morning. During the meeting, the two men reviewed developments in the Middle East peace process. They exchanged views on the process and the relevant efforts being exerted. The Israeli official explained the new Israeli Government's concept of the peace process to his excellency the minister. Gold stressed the new Israeli Government's commitment to peace with the Arabs and to maintaining the gains that have been achieved. Gold also stressed the Israeli Government's determination to continue the peace process and to build on what has been achieved in order to arrive at the desired comprehensive peace process in the region.

The Israeli minister was briefed by the minister of state for foreign affairs on the Omani point of view and, through it, the stand of the Gulf Cooperation Council member states and the Damascus Declaration member states on the peace process in accordance with the stands that have been expressed by these states.

Qatar

Qatar: Diplomats on 'Discretion' Over Netanyahu Adviser's Visit

NC2207122896 Paris AFP in English 1043 GMT 22 Jul 96

[FBIS Transcribed Text] Doha, July 22 (AFP)—Israeli Prime Minister Binyamin Netanyahu's top policy adviser held talks in Qatar on Monday [22 July] in the first high-level trip to the Gulf by the new rightwing Israeli government.

Diplomats said the envoy, Dore Gold, met Qatari foreign ministry officials in such discretion that the official news agency QNA and pro-government newspapers did not report it. Gold's mission is to convince the governments of the Gulf states of Netanyahu's commitment to pursuing the Middle East peace process, officials in Jerusalem added. Gold is also due to visit Oman before returning to Israel on Wednesday, they said.

Qatar and Oman are the only Arab Gulf countries which have begun fledgling ties with the Jewish state, agreeing to open economic cooperation offices. But following Netanyahu's election on May 29 and his tough policy

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stand on the peace process, Qatar said it would put on hold the opening of its trade mission in Israel to see if Netanyahu would continue to pursue peace.

Israel has already sent diplomats to open its trade office in Doha. Gold's visit to the Gulf follows Netanyahu's meeting in Cairo last week with Egyptian President Husni Mubarak who said he was optimistic for the future of the peace process. Netanyahu's new government has caused alarm in Arab capitals by insisting it will make no further territorial concessions in exchange for peace.

Saudi Arabia

Saudi Arabia: Organization Threatens More Attacks Against U.S.

NC2207134096 Beirut AL-SAFIR in Arabic 19 Jul 96 p 16

[FBIS Translated Excerpt] An organization calling itself the "Movement for Islamic Change—The Jihad Wing in the Arabian Peninsula" [harakat al-taghyir al-islamiyah—al-janah al-jihadi fi al-jazirah al-'arabiyah], which claimed responsibility for two explosions in al-Khubar and Riyadh that targeted U.S. military servicemen in Saudi Arabia, has made a new threat against U.S. troops in the Kingdom, calling for their immediate departure.

In a statement dated 16 July, the movement says: "The blasphemous Al Sa'ud regime continues its injustice by detaining preachers and reformers, combating Islam and Muslims, and allowing invading enemy crusaders to control the land of the two holy shrines and the Arabian peninsula. It seems that the Americans have not gotten the message from the blowing up of the main command center of the infidel U.S. Army in al-'Ulya neighborhood of Riyad (which left 7 dead—five Americans and two Indians—in November), which killed 80 Crusaders, and left. Instead, their Defense secretary has come to threaten the mujahidin that he will fight them if necessary."

The statement adds: "The reply was harsh and suitable to the challenge of the invaders' secretary, the insolent William Perry. Once again the Movement for Islamic Change has proven that it has long and capable arms by targeting the pilots' complex in al-Khubar (which left 19 Americans dead and hundreds wounded in June). The blast destroyed six buildings, including two entirely. According to our information, their number of their dead exceeds 300 and the wounded 600. The targets were absolutely all Americans; what has been carried in the Saudi and U.S. media are misleading and untrue reports.

In conclusion, the statement says: "The mujahidin will give their harshest reply to the threats of the foolish U.S. President. Everybody will be surprised by the magnitude of the reply, the date and time of which will be determined by the mujahidin. The invaders must be prepared to leave, either dead or alive. Their time is at the dawn [al-subh]. Is not dawn near?" [passage omitted]

Saudi Arabia: 'Islamic Change' Fax, Background Analyzed

MM2207140996 London AL-HAYAH in Arabic 20 Jul 96 pp 1, 5

[Report by Jamal Khashuqji: "AL-HAYAH Received Statement a Few Hours Before Plane Incident; It Was Difficult To Determine Its Truth, but It Contained a Threat to Americans"]

[FBIS Translated Text] London — About seven hours before the incident in which the U.S. "Flight 800" plane exploded a few minutes after takeoff from New York, AL-HAYAH received a statement from the "Islamic Change Movement—the Jihad Wing in the Arabian Peninsula" [harakat al-taghyir al-islamiyah—al-janah al-jihadi fi al-jazirah al-'arabiyah] claiming responsibility for the terrorist operation that occurred in Riyadh in November and the al-Khubar attack last month, June.

The important information in the statement is the movement's adoption of the recent operation in al-Khubar. It claimed responsibility for the al-Riyadh operation at the time, but had issued nothing on the al-Khubar operation, in which 19 U.S. soldiers were killed, until last Wednesday [17 July] when AL-HAYAH received its statement dated 1 Rabi' al-Awwal 1417H [corresponding to 16 July 1996].

The plane exploded over the ocean before the truth of the statement had been determined — and this drew attention to important lines containing threats at the end of the statement, saying: "The mujahidin will reply severely to the foolish U.S. President's threats, everyone will be surprised by the scale of the reply, and the place and the time will be determined by the mujahidin. The invaders must prepare to depart alive or dead, and the date is morning [al-subh, also meaning dawn, daybreak]; is morning not soon?"

This clear threat opened the door to a link with the plane incident. So was there a direct link, or was it a mere coincidence?

These questions might be answered by studying the ideological tendency behind the Islamic Change Movement and recent bombings in Saudi Arabia and by studying the movement itself through the only three statements distributed by it.

The first statement issued by a movement carrying that name was at the end of 1415H (May 1995), in

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which it set a deadline for "the departure of the U.S. forces present in Saudi Arabia, which are assigned to implement the UN resolutions against Iraq with other European states in the framework of military agreements between the two countries." The deadline was the beginning of the next Hegira year, 1416.

That threat was not taken seriously until the November 1995 explosion in a National Guard training building in the al-'Ulayya district of Riyadh in which U.S. military personnel were working. Five Americans and two Indians were killed in the blast — which differs from the movement's story in its recent statement to AL-HAYAH, when it claims that the building "is the infidel U.S. Army's main command center in the al-'Ulayya district of Riyadh" and that "more than 80 crusaders were killed," according to the statement.

But the movement had remained silent after al-Khubar until it issued the statement in question, once again providing a different story, saying that the United States "did not learn its lesson" from the Riyadh blast: "Instead of departing, their defense secretary went there to threaten the mujahidin to fight if necessary, and the reply was severe and proportionate to the defiance of the invaders' insolent Secretary William Perry. And once against the Islamic Change Movement has proved that its hands are long and capable."

Despite the familiar exaggerations and the talk of hundreds of dead and wounded, the important thing is the movement's adoption of the al-Khubar operation, which was announced markedly late.

It is clear that the statement did not threaten that the movement intended to change its strategy and to hit U.S. civilian targets — which weakens the theory of its being responsible for the TWA plane incident, since the two previous operations were against hard military targets, especially the second operation, while there are soft U.S. civilian targets which have not been targeted, although it has been reported that some residential complexes housing Americans and Europeans have received threats.

Experts on the Islamic groups' activities know that the "Change Movement" belongs to the repudiationist jihad tendency. Although it is more extremist in its repudiation of the regimes and those working with them, and although it is known for its intolerance of the other sects and religions, it is still committed to general Islamic morality, such as not targeting women and children. This was announced by the Egyptian Shaykh 'Umar 'Abd-al-Rahman, who is being held in the United States and belongs to the Egyptian Islamic Group, when he was asked whether it was possible to hit U.S. civilian targets. He refused to issue a fatwa to permit it. He told the person who asked the question, the famous Egyptian informer 'Imad Salim, to look for "military" targets.

Very little is known about the "Islamic Movement for Change" [al-harakah al-islamiyah li al-taghyir]. It has issued three brief statements, but the use of the traditional words in its recent statement issued on Tuesday reveals the movement's ideological orientation and confirms that the movement is part of the jihad, salafi [reformist], repudiationist tendency which has emerged in a number of Arab states, especially Algeria, where it is represented in the Armed Islamic Group [GIA], which is the most extremist, and in Egypt, where it is represented mainly in the Islamic Group and to a lesser extent in the "Jihad group," which believes in armed struggle but has begun to gradually abandoned the repudiation terminology, and also the "Vanguards of [Islamic] Conquest."

In Jordan, this tendency emerged once under the name "Muhammad's Army" and another time under the name "Allegiance to the Imam" [Bay'at al-Imam]. The latter name was not chosen by the group in question, but by security authorities. It was noted that, although this tendency had started to spread gradually in Jordan, with varying degrees between the traditional salafi orientation and the hard-line repudiationist orientation, political openness there caused activists to operate relatively openly, enabling security men to infiltrate them and foil their military operations.

There are various forms of this tendency in Yemen, such as Shaykh Muqbil al-Wadi'i, who has declared numerous people infidel, but so far he has stopped at President 'Ali 'Abdallah Salih. In Sudan, a group of them tried to assassinate Sudanese leader Hasan al-Turabi, declaring him an infidel and calling him "the atheist of the Islamic movement."

This tendency is also active in Britain, where it is guided by two activists: Abu-Mus'ab, a Syrian who took part in armed action in Syria with the Muslim Brotherhood before breaking away from them and declaring them infidels, and Abu-Qatadah, a Palestinian who is described as one of the tendency's jurisprudents, since he is an expert on religious matters and is known for his links with the GIA and with Abu-Mus'ab, before ideological disputes afflicted the group [GIA], which has become so extremist as to be unacceptable even to the most extremist figures.

The ideology of this tendency is based on rejecting political action as a means of change, and it has declared those who believe in it [political action] to be infidels, including the other Islamic tendencies that join parliaments and exercise democracy. It believes that the alternative is the jihad against the governments it describes

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as infidel. The circle of infidelity widens or narrows according to the scale of the confrontation: soldiers become infidels when they side with the regimes against this tendency, and journalists, thinkers, and university professors become infidels if they oppose this tendency. They are automatically included among the infidels collaborating with the infidel regime.

With regard to their ideological background, they describe themselves as salafis [reformists] and they adopt the salafi tendency's jurisprudence with regard to doctrines and dealings, even though the traditional salafi tendency describes them as rebels and deviationists. Traditional salafis believe it is impermissible to rebel against the rulers and they reject political opposition because it leads to sedition. But the jihad tendency got around this by declaring the rulers infidels, making it religiously permissible to rebel against them.

While it is almost impossible to determine the truth of a statement sent by ordinary fax, since anyone can write and send a statement, the only way to determine the truth of the statement is to read it slowly and examine its style. There are points of weakness in the statement, most importantly the sentence saying that "the Islamic Change Movement has proved that its hands are long and capable." The writer should have added the phrase "God willing," as stated by an Islamic activist who is an expert on this issue, because local religious groups care about these matters and they do not describe themselves as capable without using the phrase "God willing." Nor do they describe someone as a martyr without adding the phrase "no one is equal to God," or say that the deceased is forgiven without adding "God willing."

The second observation is that Saudi and U.S. media services used the word "tazlil" [misleading] (using a za' instead of a dad). One could say this is a misprint, but "tazlil" represents an Iraqi accent. So is the statement merely an attempt to fish in troubled waters? Of course, that is a possibility, but a weak one. The final observation is the number of casualties, especially among U.S. forces and the destroyed buildings, which contradicts the truth and what the public and journalists who visited the scene of the explosion in al-Khubar know.

United Arab Emirates

UAE: President Decrees Joining Nuclear Non-Proliferation Treaty

JN2207182196 Dubayy AL-BAYAN in Arabic 18 Jul 96 p 10

[FBIS Translated Excerpt] His Highness Shaykh Zayid Bin-Sultan Al Nuhayyan, president of the state, issued federal decree No. 38 for the year 1996 on the United Arab Emirates' joining of the nuclear Non-Proliferation Treaty of 1968, which became effective in 1970. [passage omitted]

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Iraq: Cease-Fire 'Violations' by Iran Protested to UN

JN2307100496 Baghdad INA in Arabic 0910 GMT 23 Jul 96

[FBIS Translated Text] New York, 23 Jul (INA) — Iraq protested Iran's continued violations of the cease-fire resolution and the Tehran agreement on the buffer zone signed with Iraq. Nizar Hamdun, Iraq's permanent representative to the United Nations, sent a letter to UN Secretary General Dr. Butrus Butrus-Ghali to this effect, enclosing a list of 11 violations between 24 March and 8 July.

Iraq: Committee To Draft New Constitution, Expand Freedoms

JN2207090296 Amman AL-MAJD in Arabic 22 Jul 96 p 1

[FBIS Translated Text] Reports from Baghdad said the Iraqi leadership decided to form a committee of senior officials to draw up a plan to achieve democratic openness and national reconciliation in Iraq. The reports said this committee will draft a new constitution that will be put to a public referendum within the next few months. The committee will also reconsider the Parties Law in order to draft an advanced law that meets the Iraqi people's need for democratic relaxation, political pluralism, and press freedoms.

The reports added that the committee will open an expanded dialogue with the Kurdish parties in northern Iraq to address the anomalous situation that prevails there and return the Kurdish regions to the Iraqi homeland.

The reports disclosed that Ahmad Watban al-Hasan, President Saddam Husayn's nephew, has been detained and placed under house arrest along with his father, who is a former interior minister. Ahmad Mustafa, husband of President Saddam's youngest daughter, Hala, has also been detained. The two are detained on charges of corruption.

Iraq: Amman-Based Sources Confirm Travel Ban on Iraqi Employees

JN2107171796 (Clandestine) Voice of Rebellious Iraq in Arabic 1215 GMT 21 Jul 96

[FBIS Translated Text] Amman-based Iraqi sources have confirmed that officials of the Iraqi-Jordanian Tirbil border post have begun to prevent state employees from travelling abroad upon the instructions of the tyrant. The sources added that several citizens have been returned from the Tirbil border post because they had not obtained the tyrant's personal approval. The sources indicated that this draconian measure is applicable to party members, reserve officers, and holders of post-graduate degrees. This measure was a response to the continued defection of senior state officials and the Iraqi brain drain as a result of the economic and political deterioration in the country.

Iraq: Opposition Attacks Mosul Prison, Frees 100 Inmates

LD2207183296 Tehran IRNA in English 7007 GMT 22 Jul 96

[FBIS Transcribed Text] Mahabad, West Azarbaijan Province, 22 Jul (IRNA) — A group of opposition forces freed more than 100 political prisoners following an attack on a prison in Mosul on Saturday, the Radio of the Patriotic Union of Kurdistan reported Monday. The radio monitored here said that clashes between the assailants and the prison's security forces led to the killing of two of the attackers. Following the assault, security forces closed roads connecting Mosul and Abu Gharib to Baghdad. They also arrested a number of suspects in Mosul. The situation in the city is chaotic after the operations, the radio said. Iraq's Union Party, an opposition group, claimed responsibility for the prison attack. The assailants are said to be from the Hadidi tribe.

Iraq: Opposition Kills 2 Ba'th Party Members in al-Basrah 26 Jun

JN2207181196 (Clandestine) Voice of Rebellious Iraq in Arabic 1215 GMT 22 Jul 96

[FBIS Translated Text] A group of mujahidin meted out just punishment to two 'Aflaqite party members in al-Basrah. Our sources said an armed group opened fire on two members of the ruling authority party in the al-Qiblah area, downtown al-Basrah, on 26 June. Our sources confirmed the two criminals died instantly before they could be moved to the hospital. One was identified as Fadil 'Abbas. A mujahidin source told our radio the operation was in response to the unjust detention of dozens of innocent people in the governorate. The source warned the members of the ruling party against continuing their support for the deteriorating regime. The source stressed that just punishment would be meted out to whoever insists on antagonizing our people.

Iraq: Opposition Radio Says 'Udayy Killed Imprisoned Army Officer

JN2107144496 (Clandestine) Voice of Rebellious Iraq in Arabic 1215 GMT 21 Jul 96

[FBIS Translated Text] Criminal 'Udayy [Saddam Husayn] has carried out the death sentence against

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Major General 'Abd Mutlaq al-Juburi, who had been in detention since the tyrant's defeat in Kuwait in 1991. Iraqi opposition sources said al-Juburi was given the death sentence in 1991. However, mediation efforts by several notables of the al-Jubur and al-Dulaym tribes delayed its implementation. Maj. Gen. 'Abd Mutlaq al-Juburi served as commander of the 16th Saddamist Army Division during the war with the Islamic Republic [of Iran]. 'Udayy, however, recently fabricated a new charge against him to expedite his execution. The sources did not say whether or not this officer had anything to do with the military coup attempt thwarted last month.

In a separate development, sources said the body of Jahidah Fathi Ibrahim, wife of Shukri Salih Zaki who was minister of trade during the rule of 'Abd-al-Salam 'Arif, was found at her home in the al-Mansur neighborhood in Baghdad on 17 July. Sources indicated that the regime organs were behind the killing.

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Israel: Netanyahu on Levi-'Arafat Meeting, Hizballah Moves

TA2307112796 Jerusalem Qol Yisra'el in Hebrew 1100 GMT 23 Jul 96

[FBIS Translated Text] Prime Minister Binyamin Netanyahu says that today's meeting between David Levi and Yasir 'Arafat is extremely important. He added that its main purpose is to work out a mechanism of dialogue and negotiations between Israel and the Palestinian Authority. The issues to be raised in these negotiations are the implementation of the interim agreements between the two sides and the principle of reciprocity in implementing the agreements. If they stop the violations — such as those in Jerusalem — and honor their commitments, we will honor ours as well on the basis of this principle of reciprocity, Netanyahu said.

Netanyahu told our correspondent Yo'el Nir that it is still difficult to say whether the moves by Hizballah and by Iran, which stands behind this organization, are a one-time thing or rather tactical changes pointing to a possible change in their positions.

Israel: Netanyahu To Discuss 'Lebanon First' Proposal With Ross

TA2307102196 Tel Aviv HA'ARETZ in Hebrew 23 Jul 96 pp A1, A10

[Report by Aluf Ben, Gay Bekhor, and Yerah Tal]

[FBIS Translated Excerpt] In his talks with U.S. peace coordinator Dennis Ross, Prime Minister Binyamin Netanyahu will discuss his proposal for an interim arrangement with Syria on the issue of Lebanon. This proposal calls for an Israeli withdrawal from south Lebanon's security zone in exchange for disarming Hizballah, guaranteeing appropriate security arrangements along Israel's northern border, and guaranteeing the welfare of the SLA [South Lebanese Army] members who have aided Israel.

Netanyahu presented his "Lebanon First" proposal during his meetings with U.S. President Bill Clinton and Egyptian President Husni Mubarak. Israel has proposed an interim arrangement in Lebanon several times in the past, but al-Asad rejected these proposals and refused to allow the Lebanese Government to conduct independent negotiations with Israel.

On 21 July, Netanyahu convened the inner cabinet to discuss the situation in Lebanon. Security elements briefed the ministers and analyzed the situation. The discussion on this issue will continue.

Political sources said yesterday that Netanyahu will propose that Syria resume the negotiations with Israel on the basis of the letter of invitation to the 1991 Madrid Conference. Ross will arrive in Israel from Damascus the evening of 25 July.

Ross will brief Israel about the Syrian positions. Syria is demanding that Israel recognize the "land-for-peace" formula as a condition for resuming the negotiations.

The letter of invitation to the Madrid conference states that UN Security Council Resolutions 242 and 338 should serve as the basis for the negotiations. The letter does not explicitly refer to the "land-for-peace" formula, and Netanyahu has said that the UN resolutions are open to various interpretations. Yesterday, however, Israeli sources noted that since Syria received the invitation to the Madrid Conference, it has consistently supported the negotiations format stipulated in Madrid, even when the PLO and Jordan signed separate agreements with Israel. [passage omitted]

Israel: Levi Reiterates Commitment to Peace in Message to OAU

TA2207181496 Jerusalem Qol Yisra'el in Hebrew 1800 GMT 22 Jul 96

[FBIS Translated Text] At the end of the OAU conference, Foreign Minister David Levi sent a message to the African foreign ministers underscoring the new Israeli Government's commitment to continue the peace process. Minister Levi wrote that the government intends to resume the talks on the permanent arrangement in order to reach an agreement that will satisfy the wish of both sides for peace and safeguard Israel's security needs.

Israel: Levi Sets Up Team To Lead Ministry's Political Activities

TA2207174896 Jerusalem Channel 2 Television Network in Hebrew 1700 GMT 22 Jul 96

[Announcer-read report]

[FBIS Translated Text] Foreign Minister David Levi decided to set up a five-man team to lead the ministry's activities on political issues. Levi proposed that Prof. Gid'on Doron, chairman of the Second Radio and Television Authority, head the team. Other members will be former Shin Bet director Karmi Gilon, attorney Amnon Zikhroni, former Intelligence Branch chief Uri Sagi, and reserves General Doron Rubin. Our political correspondent 'Imanu'el Rosen reports that the team members are not politically identified with the Likud. Political sources point out that this choice affirms Levi's wish to be a leading element in the government with regard to the peace process.

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Israel: West Bank Closure Eased Following Hirbawi Release

TA2307044096 Jerusalem Qol Yisra'el in English 0400 GMT 23 Jul 96

[FBIS Transcribed Text] The head of the IDF [Israel Defense Forces] Central Command, Major General 'Uzi Dayan, has ordered the easing of the closure on the West Bank. His order went into effect early this morning. The easing of the closure was delayed until the Palestinian released 'Abd-al-Salam Hirbawi, who was kidnapped and taken to Ramallah by Palestinian security officials.

[Jerusalem Qol Yisra'el in Hebrew at 0400 GMT on 23 July adds: "As of this morning, several thousand more workers will be permitted to enter Israel."]

Israel: Security Sources React to Nasrallah's Remarks on Ron Arad

TA2307072196

[FBIS Report] Jerusalem Qol Yisra'el in English at 0400 GMT on 23 July reports that "Israeli sources say they cast doubts on the intentions of Hizballah leader Nasrallah to look into the fate of Israeli navigator Ron Arad. The sources told a Qol Yisra'el reporter that the Hizballah leader is trying to appear as a moderate, though they stressed that Israel would be pleased to get any information about Arad's fate. The last information about Ron Arad reached Israel two years after he was captured."

Jerusalem Qol Yisra'el in Hebrew at 0405 GMT on 23 July carries a related report by military affairs correspondent Karmela Menashe, adding: "Israeli sources believe that the key to the information on Arad is held by Shaykh Hasan Nasrallah and his colleagues. In their meeting with German mediator Schmidbauer, the prime minister and defense minister asked the German Government to make further use of the new channel created with Hizballah and Tehran in order to act on Ron Arad's behalf. Schmidbauer did not give Yitzhaq Mordekhay any new information about Ron Arad. The German mediator said that Israel has all the information Germany has and that everybody is in the dark regarding this issue, but efforts will continue to obtain new information. At this stage, however, there is no concrete information. Security sources say it will take some time before Israel knows whether there is any truth to Nasrallah's remarks and whether he is sincere. We have to see where this is leading, the sources added."

Tel Aviv IDF Radio in Hebrew at 0400 GMT on 23 July carries a related report by military correspondent Avi Lifshitz, stating: "Israeli analysts believe that Nasrallah's remarks may have been motivated by the shaykh's internal needs — namely, to appease his supporters, who expected the release of Shaykh 'Ubayd and Mustafa Durani in the framework of the prisoner swap deal between Hizballah and Israel. The analysts maintain that Nasrallah sought to demonstrate that he is doing everything possible to bring about the release of the two important officials kidnapped by Israel. The Israeli sources stressed that if he fails to provide information on Ron Arad, there is no chance for progress on the Durani and 'Ubayd issue.

"Another security source who is familiar with the issue says it is possible that Germany pressured Hizballah to get its secretary general to issue a statement on Ron Arad. Nasrallah's remarks are in accordance with the optimistic atmosphere generated by Schmidbauer regarding future talks on Ron Arad."

Israel: Iran Reportedly Sets Up Secret Cells To Act Against Syria

TA2207153496 Jerusalem Qol Yisra'el in Arabic 1430 GMT 22 Jul 96

[FBIS Translated Text] The London-based magazine AL-MUSHAHID AL-SIYASI [THE POLITICAL OBSERVER] has reported in its latest issue that Iran is setting up a secret organization in Syria with the aim of moving against the regime and embarrassing it in the event that Syria makes peace with Israel and Hizballah in Lebanon is turned into a political element and its military activity is banned.

Citing reliable security circles, the magazine adds that this organization is made up of 10 cells operating separately without any coordination between them, which is the method used by Hamas [Islamic Resistance Movement] terrorist cells. The magazine noted that these cells include members of the Islamic Brotherhood, which is opposed to the Syrian regime, as well as members from radical Islamic rejectionist organizations.

Sha'ul Menashe, our Middle East affairs correspondent, adds that recently the Syrian authorities have arrested some members of these organizations.

Israel: Body Swap Seen as Iranian Attempt To Placate U.S. Government

TA2207142196 Tel Aviv MA'ARIV (HAYOM supplement) in Hebrew 22 Jul 96 p 3

[Editorial by Yosef Lapid: "A Coincidence?"]

[FBIS Translated Text] There may be a link between the TWA disaster and the timing of the return of the bodies of the late Rahamim Alsheikh and Yosef Fink. According to this theory, the Tehran ayatollahs are afraid the world will find out that the plane passengers were victims of a bombing planned by

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Muslim fundamentalists, possibly even by Hizballah. This in addition to the bombing in Saudi Arabia, in which 19 U.S. soldiers were killed, which was definitely carried out by Islamic fanatics. If the traces of these two deadly actions lead to Tehran, President Clinton will be forced to take sharp action against the Iranian Government. Benjamin Gilman, chairman of the U.S. Congress Foreign Affairs Committee, this week demanded military action against "foreign states sponsoring terrorist actions aimed at the United States."

Under these circumstances, it was expedient for the Iranians to use the good services of the German Government, and possibly give a little something to the Israelis, whose influence in Washington is, as everyone knows, a curse.

Israel: Sharon Orders Completion of 2 Bridges in North

TA2307105896 Jerusalem THE JERUSALEM POST in English 23 Jul 96 p 8

[Report by Jerusalem Post Staff]

[FBIS Transcribed Text] National Infrastructure Minister Ari'el Sharon ordered the Public Work Department yesterday to finish building two new bridges on the upper Jordan River during 1997.

The two bridges, one slightly north of the Arik Bridge and the other next to the Benot Ya'aqov Bridge, will cost NIS [new Israeli shekels] 37 million. They are intended to make it easier and safer to get to and from the Golan Heights.

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Jordan: Egypt's Mubarak Briefs King on Results of Netanyahu's Visit

JN2207160296 Amman Radio Jordan Network in Arabic 1500 GMT 22 Jul 96

[FBIS Translated Text] His Majesty King Husayn received a telephone call today from his brother Egyptian President Muhammad Husni Mubarak. President Mubarak was reassured about his majesty's health, and congratulated him on his successful surgery.

Consultations and coordination concerning the latest peace process developments took place during the phone call. President Mubarak briefed his majesty on the results of the Israeli prime minister's visit to Egypt and the talks held between the two sides.

His Majesty King Husayn received a congratulatory cable from his brother Palestinian President Yasir 'Arafat in which he expressed best fraternal wishes and sincerest congratulations to his majesty on his successful surgery and recovery, and wished his majesty continued good health and happiness, and the Jordanian people more progress and prosperity.

Jordan: 'Arafat-Levi Meeting Seen as 'Resumption of Peace Process'

JN2307111396 Amman AL-RA'Y in Arabic 23 Jul 96 p 25

[Editorial: "The 'Arafat-Levi Meeting and Resumption of Negotiations"]

[FBIS Translated Text] Palestinian President Yasir 'Arafat's meeting with Israeli Foreign Minister David Levi, which will take place in a calm atmosphere and to which the Palestinians are looking forward, can be viewed as a gateway to learn about the new real Israeli stand on the entire peace process and on many of the intertwined and important issues related to the Palestinian track. The meeting constitutes a resumption of the peace process after the Israeli side forced it to a halt several months ago.

It is well known that the Palestinian president's briefcase is full of demands that have accumulated since the negotiations were halted and in light of the new Israeli Government's declared stands. Perhaps the most prominent demand is for an official announcement on the resumption of the negotiations and a commitment to what was previously agreed upon, in terms of the redeployment in Hebron, the release of prisoners, and the promise not to harass Orient House. This is the gateway to discussing the final status of Jerusalem, which was postponed to the final-status negotiations.

Moreover, it is well known that the Israeli foreign minister's briefcase is full of demands for clear Palestinian stands on Israeli security — as viewed by Netanyahu's government — and for changes which require approval before getting into the final status negotiations.

It is clear that with this meeting, which is the first one at this level since the Israeli right-wing assumed power, a new language will prevail in the dialogue between the negotiators. The Palestinian dialogue is armed with signed agreements that need to be implemented, a supportive Arab stand, and clear popular support. The Israeli dialogue is supported by Torah concepts regarding the Jewish people and their historical rights, backed by Washington, which is close to holding presidential elections. This dialogue also rejects the clear international idea on the future of the Palestinian people and their right to self-determination and establish their state.

We believe that negotiations are usually conducted between two sides that hold different views and that dialogue alone leads to compromises that satisfy both sides or to which one side submits. We also realize that there is a wide gap between the two sides of today's dialogue. Hence, we hope that both will look at the future of their people with responsibility and awareness in a way that allows them to reach points of an agreement that guarantees the continuation of the process to realize a just and comprehensive peace.

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Lebanon: Buwayz, France's de Charette Meet, Make Statements

NC2307083396 Beirut Voice of Lebanon in Arabic 0715 GMT 23 Jul 96

[FBIS Translated Text] The Lebanese-French talks started at 0915 [0615 GMT] today in the Bustrus Palace [the Foreign Ministry] between Foreign Minister Faris Buwayz and his French counterpart, Herve de Charette. The talks were attended on the French side by Denise Rouchard, chief of the Middle East Department at the French Foreign Ministry; Ambassador Jean-Michel Goseau, head of the French group on the cease-fire monitoring committee; [previous names, titles as received] and French Ambassador to Lebanon Jean-Pierre La Fonda. On the Lebanese side the meeting was attended by Ambassador Zafir al-Hasan, secretary general of the Foreign Ministry, and Lebanese Ambassador in Paris Abi-'Asi.

The expanded meeting was preceded by a closed 10-minute session between Buwayz and de Charette.

At Beirut Airport de Charette described his talks with President Hafiz al-Asad as very fruitful and denied there were any obstacles hampering the activities of the monitoring committee, which will start operating within the next few days. He said he believes the prisoner swap was a positive step contributing toward eliminating the problems that might come before the peace process. De Charette believes it is positive that his visit coincides with the visit by the U.S. coordinator.

Minister Faris Buwayz said: We will discuss with Minister de Charette how to activate the topic of the security monitoring committee. He said the Lebanese stance is clear: We adhere to the principles of the peace approved in Madrid. Minister de Charette is expected to visit President Ilyas al-Hirawi at 1030 today. He will then meet Chamber of Deputies Speaker Nabih Birri then Prime Minister Rafiq al-Hariri.

Lebanon: De Charette, Buwayz View Talks, Efforts for Progress

NC2307092396 Beirut Voice of Lebanon in Arabic 0815 GMT 23 Jul 96

[FBIS Translated Text] French Foreign Minister Herve de Charette stated after his meeting with Foreign Minister Faris Buwayz that France plays an effective role in the Middle East. He said that after the cease-fire monitoring committee is formed our objective will be to form the consultative committee with the United States, the European Union, and Lebanon. He stressed that France will propose initiatives for making progress and for the peace process to take its course. De Charette expressed his hope that a partnership agreement between Lebanon and the EU will be signed soon.

Foreign Minister Faris Buwayz said the discussions with the French foreign minister dealt with numerous issues, apart from parliamentary elections. Buwayz noted that de Charette's visit comes within the framework of discussing the deteriorating conditions of the peace process, in addition to activating this process. Buwayz noted that France has already named the official responsible for the monitoring committee who will be based in Cyprus and Lebanon. The foreign minister added: We have told the French foreign minister that Lebanon adheres to the peace process proceeding from the principle of implementing the international resolutions.

De Charette is at this moment meeting with President Ilyas al-Hirawi.

Lebanon: Hizballah Leader Gives Background of Exchange Operation

JN2207175596 Paris Radio Monte Carlo in Arabic 1510 GMT 22 Jul 96

[Telephone interview with Hasan Nasrallah, secretary general of Hizballah, in Beirut by George Nawfal in the studio — live]

[FBIS Translated Text] [Nawfal] Hasan Nasrallah, good afternoon.

[Nasrallah] Good afternoon.

[Nawfal] The first question is why was the body and prisoner swap deal reached under the Israeli right-wing government, while it was not possible under the leftist government?

[Nasrallah] In fact, the agreement was not reached on the spur of the moment. It was the result of years of painstaking negotiations and efforts. About a year ago, we reached a deadlock due to the intransigence of the Israeli side in dealing with this issue. The latest German endeavor started about three months ago. They put forward an offer that deserved consideration. However, we needed time to work out the details and the guarantees. This took place after the end of the April war. It needed time. This effort coincided with the Israeli elections, which led to the defeat of Shim'on Peres and the advent of Netanyahu. However, the German mediation effort had almost achieved good results. During the past few days, extensive efforts took place in this regard. Sometimes, regarding certain details, we reached negative results. However, praise be to God, everything ended well. So, what happened was not a surprise. It was the result of strenuous efforts that took much time.

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[Nawfal] Yes, you mean that these efforts succeeded only under the Israeli right wing. Hasan Nasrallah, is your announcement that....

[Nasrallah, interrupting] I believe that if the Labor Party had won the elections and assumed power and an agreement was reached on the details, the agreement would have been implemented under the Labor government. The issue is not one of right wing or Labor; rather, it is related to freeing the detainees.

[Nawfal] Hasan Nasrallah, is the pledge you made about seeking information on the fate of Israeli pilot Ron Arad paralleled by an Israeli pledge that was not revealed? Why were al-Hajj Mustafa al-Dirani and Shaykh 'Abd-al-Karim 'Ubayd excluded from the exchange?

[Nasrallah] In fact, His Eminence Shaykh 'Ubayd and al-Hajj al-Dirani were not the only ones excluded. No Lebanese prisoners or hostages were released from Israeli prisons in occupied Palestine. His Eminence Shaykh 'Ubayd and al-Hajj al-Dirani were not excluded in particular. At any rate, the pledge we made actually opened the door, some time ago, for negotiations on exchanging the two bodies and the prisoners of the Antoine Lahd militia. I believe that had we not made this pledge, things would have remained deadlocked. In any case, we will search and make efforts, because arriving at clear facts about Ron Arad will help very much in addressing the issue of the detainees in Israeli prisons, not only Lebanese prisoners, but also the Palestinians, whose liberation we believe is our duty.

[Nawfal] When agreement was reached on the body and prisoner swap, you announced at a news conference that Israel understands nothing but the logic of force. What did you mean by that?

[Nasrallah] Israel does not observe any moral or human values, any law, or the international resolutions — regardless of my view of these resolutions. Israel has been occupying our land for long years. Had it not been for the attacks by the resistance, the Israelis would never have considered withdrawal away from the agreements through which it tries to make big political and security gains at the expense of Lebanon and the Lebanese people. Had the Israeli enemy adhered to a certain logic or certain values, the region would not have experienced all this tension over long years.

[Nawfal] Hasan Nasrallah, a final question about the exhange operation: What was the role of the Lebanese authorities? Was there any coordination between you and the authorities?

[Nasrallah] The negotiations that took place in Beirut were always attended by a representative of the Lebanese authorities; namely, the director general of the Lebanese public security. The role of the government was one of cooperation to facilitate this operation. However, we were the ones directly concerned with the details and conditions.

[Nawfal] Hasan Nasrallah, thank you for answering the questions of Radio Monte Carlo.

[Nasrallah] You are welcome.

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Syria: Europe's Peace Role, French Foreign Minister's Visit Viewed

JN2307062596 Damascus Syrian Arab Republic Radio Network in Arabic 0450 GMT 23 Jul 96

[Press review]

[FBIS Translated Text] AL-BA'TH comments on Israel's rejection of the foundations and principles of real peace in the region. Under the headline "Peace Process Impasse," AL-BA'TH says: The Israeli prime minister has left no room for doubt about his positions and policies. He is against the peace process, and he plans to renege on the agreements signed by his predecessors in the Israeli Government. This has given rise to worldwide concern and denunciation, especially on the European level.

AL-BA'TH adds: Europe is as concerned with the peace process as the Arabs, not only because of its interests and relations with the region, but also because peace in the Middle East is a basic condition for security and stability in Europe. Any tension or explosion in the region — for example, what happened in the wake of the treacherous Zionist aggression against Lebanon last April — will reflect directly and negatively on Europe and its status, especially since Israel, along with the United States, are trying to cancel any European role in the region so as to have a unilateral grip on the region and its resources and to market the Zionist concept of peace based on partial and separate agreements and peace for peace.

AL-BA'TH adds: This explains the intensive political efforts in the region and in the major capitals concerned with saving the peace process. The French foreign minister's current tour of the region is an important step within this context because it expresses a positive European stance that seeks to resume all tracks of the peace process.

AL-BA'TH concludes: International unanimity about achieving a just and comprehensive peace places Israel in front of the obligations it is trying to dodge and exposes it as a racist, expansionist entity that is hostile to peace and responsible for destroying the peace process through its intransigence.

AL-THAWRAH comments on the same issue. Under the headline "International Firmness," the paper says: We have no doubt that if international efforts are coupled with determination and resolve. If there is a reasonable level of coordination and integration, especially between the European and American roles, then this will create wide prospects for reviving hopes of peace in the region. This will provide the objective circumstances that help achieve peace with the required seriousness.

AL-THAWRAH says the international role should be unified and should utilize pressure. It should not be confined to delivering messages and making wishes. It should use all available means to force Israel to heed reason and comply with the requirements of a just and comprehensive peace. The paper welcomes — in Syria's name — all the international efforts to achieve a just and comprehensive peace. Syria is eager to rehabilitate the peace process.

The paper adds: Syria is clear about its peaceful concepts and policies. It has repeatedly said that it only wants to regain its rights in accordance with international law and the resolutions of international legitimacy. The paper says Syria is committed to achieving a just and real peace that resolves all aspects of the conflict in the region and ensures a safe, stable life for its peoples.

AL-THAWRAH says Israel, under Netanyahu, has adopted positions that do not reflect any desire for peace. Israel went public about its insistence on adhering to occupation, intransigence, and rejection.

AL-THAWRAH concludes: It is natural that the international community should concentrate its efforts on Israel to persuade it to change its stands. If it does not change its stands, it will be difficult, even impossible, to revive hopes of peace.

TISHRIN stresses the importance of maintaining the Arab position on the basis of the unanimous resolutions at the Arab summit to achieve a just and comprehensive peace and adhere to the foundations and requirements of this peace.

The paper calls for enhancing and activating Arab solidarity on the basis of regaining rights and territories. The paper warns the Arabs against Netanyahu's falsehoods, believing his claims, and remaining silent about his maneuvers. This will reflect on the Arab position, which was defined and stressed by the Cairo summit resolutions.

TISHRIN concludes: The peace process depends on Israel's complete response to the requirements of peace, stipulated in the resolutions of international legitimacy, the framework of the Madrid conference, the land-for-peace principle, and full withdrawal from the Golan and southern Lebanon and the occupied territories, including Jerusalem. The Israelis' talk about negotiations that are not based on these foundations is meant to deal a blow to the regional peace process.

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Syria: Syrian, French Foreign Ministers Discuss Peace Process

JN2207191896 Damascus Syrian Arab Television Network in Arabic 1730 GMT 22 Jul 96

[Announcer-read report over video]

[FBIS Translated Excerpt] Official talks were held this evening between the Syrian side headed by Foreign Minister Faruq al-Shar' and the French side headed by Foreign Minister Herve de Charette. [passage omitted]

The two sides exchanged views and held consultations on developments in the region and the future of the peace process.

They emphasized the importance of commitment to the bases of the peace process based on the Security Council Resolutions 242, 338, and 425, and the land-for-peace principle, which are the bases that were emphasized by the Arab summit held in Cairo and the European summit held in Florence.

Talks also dealt with bilateral relations. The two sides expressed satisfaction with the development of these relations and emphasized the importance of bolstering them in various fields. [passage omitted]

Syria: TV Reports Further on al-Asad-de Charette Meeting

JN2207203996 Damascus Syrian Arab Television Network in Arabic 2000 GMT 22 Jul 96

[Announcer-read report over video]

[FBIS Translated Text] His Excellency President Hafiz al-Asad received French Foreign Minister Herve de Charette and his accompanying delegation at al-Ladhiqiyah Palace at 2000 today. The meeting was attended by Foreign Minister Faruq al-Shar'.

Al-Shar' and De Charette briefed his excellency the president on the talks they held today with the participation of the Syrian and French delegations. Discussions dealt with regional developments and the current status of the peace process in light of the Israeli position.

De Charette expressed France's interest in the regional situation and its readiness to play an active role for the sake of peace. His excellency the president welcomed a French and European role to achieve a just and comprehensive peace based on the resolutions of international legitimacy. The talks also dealt with bilateral issues, upgrading bilateral relations, and regional and international issues of concern to Syria and France.

Syria: Prime Minister on Cairo Summit, Relations With Turkey

JN2007144096 Damascus Syrian Arab Republic Radio Network in Arabic 1115 GMT 20 Jul 96

[FBIS Translated Excerpt] Prime Minister Mahmud al-Zu'bi said that the recent Arab summit in Cairo revived joint Arab action. The summit was held in response to a dire Arab need for cooperation and solidarity in dealing with the challenges that face the Arab nation, he said.

In a statement to the latest issue of the Lebanese newspaper AL- HAWADITH, the prime minister said: The Cairo summit expressed the Arab states' commitment to continue the peace process in order to achieve a just and comprehensive peace based on international legitimacy resolutions and the land-for-peace principle. This, in turn, requires a clear, unambiguous, and unequivocal Israeli commitment that would lead to the restoration of the Arab rights and withdrawal from their occupied lands.

With respect to Syrian-Turkish relations, Mahmud al-Zu'bi underscored the deep historic, spiritual, and cultural ties binding the Arab and Turkish peoples. He said that both peoples have a desire to further develop these relations, noting that Syria is working eagerly to implement the agreements signed between Syria and Turkey. Moreover, he added, there have been several meetings between officials in both states to develop bilateral relations.

Al-Zu'bi spoke about the formation of the new Turkish Government under the chairmanship of Necmettin Erbakan. He said Erbakan's positive statements have opened significant prospects and have given rise to new hopes for a real breakthrough in relations between the two states.

Al-Zu'bi added that Syria will reciprocate the Turkish desire by turning over a new leaf in bilateral relations based on good intentions. Syria believes that Syrian-Turkish relations are among the best forms of cooperation based on neighborly ties and mutual respect to serve the common interests of the Syrian and Turkish peoples. [passage omitted]

Syria: Radio — No Talks Before Israeli Commitment to Resolutions

JN2207165896 Damascus Syrian Arab Republic Radio Network in Arabic 1130 GMT 22 Jul 96

[Station commentary]

[FBIS Translated Text] Dear listeners: President Hafiz al-Asad yesterday received Egyptian Foreign Minister 'Amr Musa, who handed his excellency a letter from

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President Husni Mubarak dealing with developments in the region, recent contacts with parties involved in the peace process, and the results of the Israeli prime minister's talks in Cairo. It is obvious that Syrian-Egyptian coordination is taking place on all levels to solidify the Arab position and enhance joint Arab action in light of the Cairo summit's resolutions. Syria, Egypt, and Saudi Arabia played a basic role in that summit, which succeeded in closing Arab ranks after long years of fragmentation. The summit also crystallized a unified Arab position and true solidarity in the face of the hardline positions which Israeli Prime Minister Binyamin Netanyahu adopted and then confirmed in Washington.

Arab solidarity will ensure the restoration of land and rights and will place the world community before its responsibilities. Had it not been for Arab fragmentation, Israel would not have gone on the rampage in this way and declared its decision to devour the Golan, Jerusalem, and the West Bank. Israeli Prime Minister Netanyahu built great hopes on Arab fragmentation, which he views as a suitable framework to continue his expansionist designs and to disavow the peace process, its bases, and its requirements.

During the Cairo summit and the Muscat meeting, the Arabs stressed their adherence to just and comprehensive peace based on the international legitimacy resolutions, which prohibit the occupation of land. They also said that Israel would be responsible for any departure from the peace process and its requirements, and appealed to the world community to shoulder its responsibilities. The world community responded to the appeal through the European summit in Florence, which urged Israel to commit itself to the bases and principles of the Madrid conference, particularly the land-for-peace principle. The Lyon summit, which comprised the other seven richest countries in the world, as well as the Russian Federation, also stressed the bases of the peace process in light of the Madrid conference.

For its part, the United States announced through President Clinton and his Secretary of State Christopher its commitment to the bases of the peace process, foremost of which is the land-for-peace principle, and called for the resumption of the peace process on the Syrian and Lebanese tracks. It also does not conceal Syria's importance as a principal pillar in Middle East peace. The United States also dispatched peace process coordinator Dennis Ross to the region, while France will send its Foreign Minister Herve de Charette, who will begin his tour with a visit to Damascus. France too did not hesitate to remind Israel of the need to respect the bases of the peace process, including the exchange of land for peace and the implementation of agreements. It also warned that the peace process would collapse if Israel continued its hardline positions. Such a collapse, it said, would have a serious impact on the Middle East and world peace.

President al-Asad holds contacts with the Arab brothers, particularly Egypt and Saudi Arabia, to develop the results of the Cairo Arab summit toward solidifying the Arab situation and enhancing joint Arab action and to encourage Europe to play an effective role in the region in line with the historical ties between the two banks of the Mediterranean and with the international responsibilities of major countries like France. At the same time, Syria remains loyal to Arab rights and will not relinquish any particle of Syrian or Arab soil or any national and pan-Arab right.

Peace should be just and comprehensive, should return rights, and should end Israel's occupation of the Golan, southern Lebanon, Jerusalem, and the West Bank. Otherwise, peace will not prevail. Syria is not begging for peace, but is seeking the peace of the international legitimacy and the full implementation of the Security Council resolutions. It also refuses to hold negotiations for the sake of negotiations, which should restore land and rights. Negotiations will not take place before Israel's explicit commitment to the international legitimacy resolutions and the land-for-peace principle. Syria derives its strength from the pan-Arab position crystallized in the Damascus and Cairo summits.

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India

India: Finance Minister Presents 1996-97 Regular Budget

BK2307074696 (Internet) Indian Ministry of Finance WWW in English 22 Jul 96

[Speech by Indian Finance Minister P. Chidambaram in New Delhi on 22 July]

[FBIS Transcribed Text] Sir, I rise to present the regular budget for the year 1996-97.

2. [numbering as received] An unusually peaceful general election produced an unusually complex mandate. It was the duty of every political party to be faithful to that mandate. Accordingly, political parties of different complexions and different ideologies have come together to form this government. Many of them are regional parties, albeit with a national outlook. What has united us is a resolve to preserve India's secular heritage and to provide a representative government committed to faster economic growth and enhanced social justice.

3. The United Front is a coalition. Before assuming office, the partners of the coalition finalised a document called "A Common Approach to Major Policy Matters and a Minimum Programme", popularly called the CMP. This historic document was released to the nation by our Prime Minister, Shri Deve Gowda, on June 4, 1996. When I began work on the CMP I was not even a Minister. When we completed our exercise I found myself in the office of Finance Minister. Therefore, my commitment to the CMP goes beyond the office I hold. Honorable Members will have many opportunities this afternoon to test my commitment and they will find that the CMP has provided the foundation and set the agenda for this Budget.

4. An Update of the Economic Survey 1995-96 was laid on the Table of the House last Friday [19 July]. It is a slim document of no more than 21 pages and I hope it made for good weekend reading. Our conclusions are that the economic indicators point to high growth but there are significant areas of weakness. The Update has identified these areas as the fiscal deficit, sluggish agricultural growth, inadequate infrastructure, high interest rates and the trade deficit. The most worrisome is the decline in the growth of agricultural crop production to 0.9 percent in 1995-96. The Update has also listed fiscal challenge, infrastructure challenge and employment and poverty alleviation as key issues which need to be addressed on a priority basis.

5. The CMP has declared that the government will follow economic policies that will promote growth with social justice and lead to greater self-reliance. We have no use for jobless growth; nor for growth that leaves untouched large sections of the people. We will remove controls and regulations over agriculture and industry. We will keep our economy open and competitive in order to encourage more foreign trade and attract more foreign investment. We will reform the tax system. We will broaden and deepen reforms of the financial and capital markets even while strengthening independent regulators like the Reserve Bank of India (RBI) and the Securities and Exchange Board of India (SEBI). Above all, we will observe fiscal and monetary prudence which is the key to low inflation and rapid growth.

6. This Budget, therefore, has seven broad objectives:

— To remain steadfast on the course of economic reforms and liberalisation aimed at accelerating economic growth.
— To address the concerns of the poor and provide them with basic minimum services in a time-bound manner.
— To ensure broad-based growth in agriculture, industry and services to achieve high employment.
— To ensure fiscal prudence and macro-economic stability.
— To enhance investment, especially in the infrastructure sectors.
— To strengthen key interventions to promote human development.
— To ensure viability in the balance of payments through strong export performance and larger foreign investment flows.

I shall now deal with the major areas of the economy and spell out our policy initiatives in order to achieve the objectives that I have just listed.

Agriculture & Rural Credit

7. The Common Minimum Programme lays emphasis on broad-based agricultural development and calls for a doubling of the flow of credit to agriculture and agro-industries, particularly to small and marginal farmers, within five years. We have evolved an integrated plan consisting of several elements for fulfilling this important objective.

8. First, the share capital of the National Bank for Agriculture and Rural Development (NABARD) will be increased from the present level of Rs. [rupees] 500 crore to Rs. 2,000 crore in the next five years. I propose to double NABARD's paid up share capital to Rs. 1,000 crore in the current year. A budgetary provision of Rs.100 crore is being made towards the Government of India's share and the balance Rs. 400 crore will be contributed by the Reserve Bank of India.

9. Second, the Rural Infrastructure Development Fund (RIDF) which is operated by NABARD and funded by

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contributions from commercial banks falling short of their priority lending targets will be augmented considerably. The RIDF provides loans to State governments for completion of projects in areas like medium and minor irrigation, soil conservation and watershed management. During 1995-96, NABARD sanctioned loans aggregating Rs.1,984 crore to 19 States for completing 2,489 projects. During the current financial year, an additional Rs.2,500 crore will be made available for financing rural infrastructure through the RIDF.

10. In addition to the RIDF, I am proposing an Accelerated Irrigation Benefit Programme under which the Centre will provide, on a matching basis, additional Central assistance by way of loans to the States for the timely completion of selected large irrigation and multi-purpose projects. I am making an allocation of Rs.800 crore in 1996-97 to launch this scheme which is designed to accelerate the completion of irrigation projects where the project cost exceeds Rs.1,000 crore and is beyond the resource capability of the States. I am also allocating Rs.100 crore in the current financial year for irrigation projects where, with just a little additional resources, the projects could be completed and farmers could get the benefit of assured water supply. 100,000 hectares will be brought under irrigation through these schemes and I have been assured that the first crop will be harvested on these lands during one of the next four agricultural seasons. Details of the large projects and the projects to benefit 100,000 hectares will be announced by the Planning Commission in the next few days. This programme will be closely monitored by the Department of Programme Implementation.

11. Fourth, to promote investment in commercial or high technology agriculture and allied activities such as horticulture, floriculture and agro-processing, state level agricultural development finance institutions are proposed to be set up. NABARD will be the chief promoter. Other national level financial institutions as well as the State governments concerned will be requested to participate in the equity.

12. Fifth, it has been agreed with RBI to promote the setting up of new private local area banks with jurisdiction over two or three contiguous districts. This would enable the mobilisation of rural savings by local institutions and, at the same time, make them available for investments in the local areas.

13. Finally, we have taken a number of decisions that will directly benefit the farmers. Two weeks ago, the Prime Minister announced increases in the subsidies for phosphatic and potassic fertilisers. Government have decided to extend the subsidy under the Integrated Cereal Development-Rice Programme to power tillers at the rate of Rs.30,000 or 50 per cent of the cost for each power tiller. The subsidy scheme on small tractors at the rate of Rs. 30,000 per tractor is presently restricted to small and marginal farmers. I am extending this scheme to all farmers. I am also enhancing the subsidy on sprinkler and drip irrigation from 50 per cent to 70 per cent of the cost of the system and the ceiling is also being raised from Rs.15,000 to Rs.25,000 per hectare. In respect of small and marginal farmers, women and scheduled castes and scheduled tribes, this limit is being raised to 90 per cent of the cost of the system.

Basic Minimum Services

14. One of the first acts of the Prime Minister, Shri Deve Gowda, was to convene a meeting of Chief Ministers on Basic Minimum Services. This reflects the resolve of the United Front to "advance the principles of political, administrative and economic federalism". The Chief Ministers' Conference recommended adoption of seven objectives to be attained by the year 2000. These are 100 per cent coverage of provision of safe drinking water; 100 per cent coverage of primary health centres; universalisation of primary education; public housing assistance to all shelterless poor families; extension of the mid-day meal scheme; road connectivity to all villages and habitations; and streamlining the public distribution system targeted to families below the poverty line.

15. These objectives are now being served by Centrally-sponsored schemes and schemes in State Plans. Hon'ble Members will be glad to know that I am providing an additional amount of Rs.2,466 crore as Central assistance for State and UT [Union territory] plans to significantly increase the availability of funds for these schemes. From this amount, it is our intention to allocate about Rs.250 crore to provide shelter and other basic amenities to slum dwellers. The distribution of this enhanced allocation across the seven schemes and across States and Union Territories will be determined by the Planning Commission in consultation with them.

Infrastructure Financing

16. The Update of the Economic Survey has highlighted the enormous challenge on the infrastructure front. The state of our infrastructure — particularly power and roads — is very poor. We cannot sustain a 7 per cent growth unless we can revitalise these infrastructure sectors. Huge funds are also required for telecom, railways and ports.

17. Infrastructure needs long-term finance, typically 15-20 year financial instruments. However, it has not been possible to float such instruments in the Indian market so far. Hence, I am proposing the establishment of an Infrastructure Development Finance Company (IDFC). This

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company will be incorporated with an authorised share capital of Rs.5,000 crore. The Central Government, the RBI, banks and financial institutions will contribute to the share capital. I am making a budgetary provision of Rs.500 crore in the current financial year as the contribution of the Central government. The RBI's initial contribution to the share capital will also be Rs.500 crore. Among other things, the IDFC will act as a direct lender, as a refinancing institution and as a provider of financial guarantees. I believe that the IDFC will induce investors, both Indian and foreign, to make available long-term funds at the lowest possible market rates.

18. I am also proposing some tax incentives for infrastructure investment which I shall outline later.

19. Hon'ble Members are aware that the Central government has already set up the National Highway Authority of India. We need a world-class national highway system in place very quickly. I have decided to provide a sum of Rs.200 crore to strengthen the capital base of the National Highway Authority of India. The Authority will now be in a position to leverage resources for highway development from both within India and from outside.

Small Scale Industry

20. The entrepreneur-driven small-scale sector forms the backbone of our industry. I am deeply committed to strengthening this sector. The following set of measures will be put in place immediately.

— First, the Small Industries Development Bank of India (SIDBI) has an unutilised corpus of about Rs.175 crore in its Technology Development and Modernisation Fund Scheme. I am now proposing that SIDBI should refinance the State Financial Corporations (SFCs) and commercial banks for modernisation projects upto Rs.50 lakh. This will decentralise decision-making to the advantage of small-scale units seeking modernisation funds from SFCs and banks.

— Second, refinance is now provided for the Single Window Scheme of SFCs etc. for composite loans upto Rs.50 lakh. I am doubling this ceiling to Rs.100 lakh.

— Third, SIDBI will participate in venture capital funds set up by public sector institutions as well as private companies upto 50 per cent of the total corpus of the fund, provided such a fund is dedicated to the financing of small-scale industry.

— Fourth,in order to encourage a larger number of small scale units to seek ISO [International Standards Organization] 9000 certification of quality, lending institutions will be permitted to lend to the ultimate borrowers on the same terms and conditions as SIDBI's direct lending scheme. SIDBI will provide refinance assistance to these lending institutions.

Science & Technology

21. Science and technology is the key to economic progress and prosperity. Indian scientists and technologists have accomplished a great deal, especially in the areas of agriculture, space, atomic energy and defence. There is now need for a massive renewal of our science and technology infrastructure.

22. I propose to extend a matching one-time grant for the modernisation of the laboratories and institutes of the Council of Scientific and Industrial Research (CSIR) and the Indian Council of Agricultural Research (ICAR). I will match every commercial rupee that the CSIR and ICAR earn incrementally in the next two years with another rupee from the Budget.

23. I also propose to strengthen the Fund for Technology Development and Application which was created in 1994-95 to help indigenously developed technologies reach the stage of commercial application. The interim Budget had provided Rs.10 crore. As a demonstration of this government's commitment to science and technology, I am immediately making available Rs.30 crore. The Department of Science & Technology will announce the constitution of the Technology Development Board shortly.

Public Distribution System

24. The Common Minimum Programme states that the Public Distribution System [PDS] will be strengthened to meet the twin objectives of price stability and making available essential articles to the poor. It is, therefore, proposed to restructure the PDS. A beginning will be made where the need is most acutely felt. The restructured PDS will serve households below the poverty line. Details of the restructured PDS are being worked out and will be announced in due course.

Pay Commission

25. The Fifth Pay Commission is expected to submit its report by the end of September 1996. Funds have been provided in this Budget as well as the Railway Budget to meet the anticipated expenditure. Meanwhile, I am happy that the question of granting another installment of interim relief has been sorted out satisfactorily.

Other Welfare Measures

26. The Prime Minister has repeatedly declared that this government is a government of the poor and for the poor. Growth with social justice will be the motto of this government. Unless the country's GDP grows at over 7

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per cent per year in the next 10 years, we will not be able to abolish poverty and unemployment. However, there is a need to identify vulnerable sections of the people and help them. The Prime Minister has identified some target groups which deserve to be helped and I am proposing some new initiatives for meeting their special needs. These initiatives will be implemented through the State governments and, as far as possible, in collaboration with non-governmental organisations.

— I am setting apart, initially, a sum of Rs.5 crore to assist in the establishment of old-age homes and another sum of Rs.5 crore to assist in the establishment of residential primary schools for poor children irrespective of caste or creed. It is intended that both these programmes should be implemented through non-governmental organisations. The programmes will be firmed up by the Ministries concerned in consultation with the State governments.

— Rs.10 crore is being provided for giving assistance to States which have or will set up Women Development Corporations. An additional amount of Rs.10 crore has been set apart for starting training-cum-production centres or schemes for destitute women in different States.

— I am creating a National Illness Assistance Fund with an initial corpus of Rs.5 crore. Besides, Rs.25 crore have been set apart for contributions to the corpus of State Illness Assistance Funds that we would encourage the State governments to establish. 100 per cent of the donations to these funds will be exempt from income tax. These funds will be used to provide assistance to the very poor for surgery or treatment for serious illnesses requiring hospitalisation.

— Rs.5 crore is being provided to award an ex-gratia amount of Rs.50,000 per family to the families of lorry and bus drivers who meet with fatal accidents. This will be implemented by the State governments on a reimbursible basis.

— I am making a provision of Rs.5 crore for building residential facilities for hamals — our brothers who toil day and night. This scheme will also be implemented by the States.

27. Government will consider a scheme of financial assistance to States who confer ownership rights in respect of minor forest produce on Scheduled Castes, Scheduled Tribes, Other Backward Classes and other weaker sections who work in forests.

Fiscal Discipline

28. The biggest challenge that we face is the fiscal challenge. The United Front government is committed to bringing the fiscal deficit to below 4 per cent of GDP. This is what the Common Minimum Programme says and this is what I intend to do over a period of time. One plank of the strategy is, of course, to raise more revenues. But without a credible public expenditure management policy, no programme of fiscal deficit reduction will be sustained. I believe that no one is against austerity or efficiency as such. At the same time, I accept the position that sound expenditure management is not a mere technocratic exercise but involves issues of equity, fairness and non-discrimination. In order to work out a reasonable policy in this regard, I propose to appoint a high-level Expenditure Management and Reforms Commission comprising distinguished political leaders, economists and administrators. This Commission will be given four months — and I hope no more — to submit its recommendations on public expenditure management and control as far as the Central government is concerned. The report will be made public immediately so that we can generate an informed public debate on an issue that has a vital bearing on our economic future.

29. I also propose to place before the House a discussion paper on subsidies. The paper will list all the subsidies, visible and hidden, so that there can be an informed debate and a consensus on the overall level of subsidies as a percentage of GDP and their appropriate targeting.

30. In the meantime, I intend to be strict in matters relating to cash management, project portfolio review, adherence to budgetary ceiling and adequacy of returns from public sector enterprises.

31. Hon'ble Members are aware that in September 1994 an agreement was signed between the Central Government and the RBI to phase out the system of ad-hoc treasury bills by 1997-98. The experience last year and in the current year so far has shown the difficulty of staying below the within-year limit. Nevertheless, I remain convinced that the system of ad-hoc treasury bills must be phased out. However, before this can happen we need to put in place a better expenditure control mechanism. We also need a more transparent method of defining and reporting the true budget deficit, including all forms of monetisation. I shall present concrete proposals in this regard at the time of presentation of next year's budget so that RBI can have greater autonomy in formulating and implementing monetary policy.

Insurance, Banking and the Capital Market

32. Earlier I made a reference to insurance in the context of long-term finances. LIC [Life Insurance Corporation] and GIC [General Insurance Corporation] are our two

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premier institutions in the insurance sector. I intend to strengthen them. The strength of an insurer has to be measured by the range and quality of its services and products and by the number of people availing of those services and products. I am happy to announce that I have been able to persuade LIC and GIC to offer two new services aimed at the middle class and the poor.

33. LIC will offer a new pension scheme called "Jeevan Suraksha". The details of the new scheme will be announced separately but an illustration of how the scheme will work can be given. A person who subscribes to the scheme at age 30 for a period of 30 years by paying just Rs.250 per month will get a life pension of Rs.3,500 per month beginning at age 60. In addition, that person will get 25 per cent of the commuted value of the pension — about Rs.1 lakh — immediately on retirement. If the insured person dies before retirement, the spouse will be paid a substantial life-long pension. This scheme will meet a long-felt need amongst a large number of people for economic security beyond their working life. To launch this personal-cum-family pension scheme, I am proposing some fiscal incentives which I shall outline later.

34. Medical insurance is an area where the quality of the product can be greatly improved. Under the existing Medicare scheme, the maximum cover available is Rs.83,000 which is further segmented into different components. This ceiling is being enhanced to Rs.3 lakh with a single aggregate limit.

35. Furthermore, the GIC will launch a new low price medicare policy appropriate to the vast majority of our people. Jeevan is the brand name for the LIC and we respect intellectual property rights. So we are calling this new scheme "Jan Arogya". The policy will provide a cover upto Rs.5,000 per year with an annual premium of only Rs.70. What is more, a family of four comprising the husband, wife and two children below the age of 25, can pay an annual premium of Rs.240 and get cover for Rs.20,000 for the family as a whole. GIC will soon announce the details of this scheme.

36. I have advised LIC and GIC to introduce modern information technology in their business. I have also asked LIC to review the premium structure based on the latest mortality tables.

37. An interim, non-statutory Insurance Regulatory Authority was set up in January 1996. I now propose to introduce a Bill to make it a statutory body and to empower it suitably. When I return to the subject of insurance in the next Budget, I shall address some of the policy parameters outlined in the Common Minimum Programme, including the sequence of steps for the restructuring of the insurance industry.

38. Reform of the banking sector has been an integral part of the process of economic reforms. The public sector banks have shown an improvement in profitability and capital adequacy and are taking steps to adopt improved technology. The entry of private sector banks has added a welcome measure of competition. Hon'ble Members are aware that in the past three years the government provided a total of Rs.11,840 crore to recapitalise several public sector banks. I am happy to inform the House that three of these banks are now in a position to return part of the capital, amounting to Rs.747 crore, reflecting an improvement in their performance. This re-flow of resources will help to recapitalise some more public sector banks for which a provision of Rs.909 crore is being made in 1996-97. Some of the strong public sector banks are also planning to recapitalise themselves by accessing the capital markets directly. Hon'ble Members will be pleased to know that the State Bank of India is today a prized scrip in the market. I am also providing Rs.200 crore in 1996-97 for restructuring and recapitalising the Regional Rural Banks.

39. The capital market has a crucial role to play in raising funds for new investment. Government will ensure healthy development of the capital markets through effective regulation, greater transparency and improved trading and settlement practices. Our major stock exchanges have already introduced on line electronic trading. The commencement of a Central Depository, which is expected in the course of this year, will be a historic further step in the modernisation of the capital markets.

40. The present regulations governing foreign institutional investors allow investment only in listed securities. There is also a limit of not more than 5 per cent for an individual FII [foreign institutional investors] and an aggregate of 24 per cent for all FIIs in the stock of a listed company. It has been represented that these limits should be liberalised. Besides, FIIs are unable to invest in infrastructure because most infrastructure projects are set up by new companies which are not expected to be listed for some time. Having regard to these representations, I propose to raise the limit of 5 per cent for an individual FII to 10 per cent subject, however, to the aggregate limit of 24 per cent for all FIIs. I also propose to allow them to invest in unlisted companies in the same manner as they are allowed to invest in listed companies. The revised guidelines are being issued separately by SEBI.

Non Banking Finance Institutions

41. Serious concerns have been expressed from time to time about the activities of a number of non-banking financial institutions, both corporate and non-corporate.

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I am happy to inform the House that, in consultation with the Reserve Bank of India, we have decided to bring before this House amendments to the RBI Act to strengthen the regulatory powers over all kinds of non-banking financial companies.

Corporate Sector

42. It is widely acknowledged that the Companies Act 1956 needs to be re-written comprehensively. Some work has already been done. I intend to constitute a small drafting team comprising persons with knowledge of law, economics and company affairs to prepare a new draft and make it ready for public debate. My deadline is January 1, 1997.

43. In the meanwhile, I propose to introduce some urgent amendments to the present Act to provide for the following:

— Companies defaulting on payment of interest or repayment of principal on deposits will be debarred from raising further deposits until these defaults are remedied.

— The present ceiling of Rs.1,000 on the claims of arrears of wages and salaries of employees in case of winding up of a company is absurdly low. This will be enhanced.

— Mutual funds and venture capital funds will be permitted to vote in respect of their holdings in companies.

— Non-voting shares will be permitted upto 25 per cent of the issued equity capital. This will go a long way in meeting the demand for a level playing field.

— Companies in the infrastructure sector will be allowed to issue shares that are redeemable after the expiry of a period of 20 years from the date of issue.

44. Hon'ble Members will agree with me that these changes are necessary and should be introduced right away. Next year, I shall come back to the House with a new Companies Bill.

45. In order to achieve competitiveness, Indian industry must be given easy access to improved technology. At present RBI accords automatic approval for technology imports subject to the requirement that royalty will be limited to 5 per cent on domestic sales and 8 per cent on export sales and that the lump sum payment does not exceed Rs.1 crore. All other cases require case-by-case approval by the Central government. Industry has represented that the Rs.1 crore limit for automatic approval needs to be increased. Responding to this demand, it has been decided to increase this limit to $2 million (equivalent to about Rs.7 crore). With this liberalisation, a large number of technology import cases will not have to come to government.

46. The Industrial Reconstruction Bank of India (IRBI) was constituted to function as the principal credit and reconstruction agency. Thanks to rapid changes, the burden of reconstruction is being shared by different stakeholders including development financial institutions and banks. I, therefore, propose to transform the IRBI into a fulfledged, all-purpose development finance institution with headquarters in Calcutta. I will soon bring the necessary changes in the statute governing IRBI.

FIPB, Tariff Commission and Disinvestment Commission

47. In keeping with the promises made in the Common Minimum Programme, government have reconstituted the Foreign Investment Promotion Board. The Foreign Investment Promotion Council will also be set up shortly. Together, they will vigorously promote and approve foreign direct investment in India keeping in view the objective of attracting at least $10 billion every year.

48. In order to expedite foreign investment approvals and also increase the transparency of the process, government have decided to expand the list of 35 industries which are eligible for automatic approval upto 51 per cent of foreign equity. The expanded list will be announced separately by my colleague, the Minister of Industry. At present, the automatic approval procedure is subject to the requirement that the value of foreign equity should cover the total import of capital goods. This condition was introduced in 1991 when capital goods imports were subject to import licensing. As capital goods have been free of import licensing restrictions since 1992, this condition is being dropped.

49. Government have also initiated action to set up an independent Tariff Commission.

50. Government have approved the proposal to establish a Disinvestment Commission. Any decision to disinvest will be taken and implemented in a transparent manner. Revenues generated from such disinvestment will be utilised for allocations for education and health and for creating a fund to strengthen public sector enterprises. The interim Budget for 1996-97 took credit for Rs.5,000 crore through disinvestment. I propose to take credit for the same amount. The disinvestment will be done in three tranches, approximately in September, November and January/ February. Industrial Sickness

51. The Sick Industries Companies Act (SICA) has a narrow definition of sickness and cannot deal with incipient or potential sickness. Managements have been

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able to use the BIFR route to abdicate their legitimate responsibilities. Under the present dispensation workers, financial institutions, banks and government are often the losers. I have initiated a total review of SICA and the working of BIFR and I intend to bring a new Bill in the winter session of Parliament.

Centre-State Relations

52. I have already made a reference to the Chief Ministers' Conference on Basic Minimum Services. The Prime Minister intends to call another conference of Chief Ministers to discuss the political aspects of Centre-State relations and federalism. At the last conference, the Chief Ministers expressed the view that many centrally-sponsored schemes should be retained as such and should continue to be funded by the Central government. While we respect the views of the Chief Ministers, it is our desire that most Centrally-sponsored schemes should be transferred to the control of the State governments. In the meantime, States will be given greater flexibility in the implementation of these programmes. Provisions available under all other schemes will be pooled and the basic entitlement ratio will be worked out for each State. The States will be free to select for implementation, within their annual entitlement, such schemes that are more suited to their needs. The Ministry of Planning and Programme Implementation is working on the revised guidelines and procedures in consultation with the concerned Ministries and the States.

53. I also intend to circulate a discussion paper to Hon'ble Members on the 10th Finance Commission's recommendation to form a single divisible pool of taxes to be shared between the Centre and the States. Prima-facie, the Finance Commission's recommendation appears to be in the national interest but it will require an amendment to the Constitution. Hence, I wish to encourage a debate before a final decision is taken.

54. The Common Minimum Programme has promised that the Government will, within six months, bring out a detailed document that will articulate the priorities and programmes of the Ninth Plan. While a number of programmes have been initiated in this Budget, it will be our endeavour to prepare an Approach Paper to the Ninth Five Year Plan within four months. The Ninth Plan will target a growth rate of 7 per cent per annum and will articulate strategies for decentralisation of responsibilities, for raising resources and for ensuring widespread growth. The initiatives that have been taken this year will be followed by a more comprehensive programme of social and economic development with the focus on elimination of poverty.

Budget Estimates

55. I shall now briefly go over the Budget estimates.

56. As Hon'ble Members are aware, details of the revised estimates for 1995-96 were presented along with the interim Budget in February 1996. I am, therefore, not going over those estimates again. The figures that are given below are the budget estimates for 1996-97 and for plan expenditure I shall compare them with the budget estimates for 1995-96.

57. For 1996-97, the total expenditure is estimated at Rs.204,698 crore. Of this, Rs.54,685 crore is gross budgetary support for the Central Plan and assistance to State and UT plans, representing a sharp increase of 13 per cent over Rs.48,500 crore. Non-plan expenditure is placed at Rs.150,013 crore.

58. Central assistance for State and UT plans is being stepped up from Rs.19,506 crore to Rs.21,972 crore. The increase will provide funds to the States for implementing the seven Basic Minimum Services schemes to which I have referred earlier.

59. Gross budgetary support for the Central Plan is being enhanced from Rs.28,994 crore to Rs.32,713 crore.

60. All anti-poverty programmes will be reviewed with a view to strengthening them and providing them with more funds. The plan allocation for the Department of Rural Development has been increased from Rs.1,263 crore to Rs.2,195 crore. The plan allocation for the Department of Rural Employment and Poverty Alleviation is Rs.6,437 crore.

61. The plan allocation for the Department of Fertilizers has been increased from Rs.205 crore to Rs.373 crore in order to increase domestic production.

62. For tapping the potential of non-conventional energy sources, the plan allocation for the Ministry of Non-Conventional Energy is being raised by Rs.87 crore to Rs.334 crore.

63. Mr. Speaker, Sir, I hope Hon'ble Members will forgive the Finance Minister if he is partial to the cause of exports. After all, I cut my teeth in economic administration in the Ministry of Commerce. Promotion of exports must remain high on our agenda. Hence, I propose to provide a sum of Rs.50 crore for the corpus of the recently established India Brand Equity Fund. I would appeal to industry and trade to contribute at least an equal amount in this financial year itself. A sum of Rs.25 crore has been provided for critical balancing infrastructure. Non-plan provision for export promotion and market development has been enhanced from Rs.315 crore to Rs.460 crore. Deemed exporters

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will now get refund of terminal excise duty in quick time.

64. The plan allocation for the Department of Health has been stepped up from Rs.647 crore to Rs.792 crore.

65. The plan allocation for the Department of Education has been increased substantially from Rs.1,825 crore to Rs.3,388 crore. This will help in implementation of the District Primary Education Programme and the mid-day meal scheme.

66. This government is committed to safeguard the interests of women and children by expanding the social safety nets. The annual plan allocation for the Department of Women & Child Development is being stepped up from Rs.730 crore to Rs.847 crore. The allocation for the Integrated Child Development Scheme is being increased from Rs.588 crore to Rs.682 crore.

67. The plan allocation for the Ministry of Labour has been increased from Rs.136 crore to Rs.188 crore. Enhanced provisions have been made for schemes relating to improvement in the working conditions and for training of workers.

68. In the Railway Budget presented a few days ago, government have announced an outlay of Rs.8,130 crore in the Railway plan for the current year with a budgetary support of Rs.1,269 crore. Based on the ability of the Railways to meet their stipulated targets on internal resource generation, I will consider increase in the budgetary support during the course of the year for this crucial sector.

69. The plan allocation for the Ministry of Surface Transport has been increased by Rs.240 crore to Rs.1,322 crore, mainly to provide enhanced support for national highways. Schemes are on the anvil to make Kochi and Tuticorin important trans-shipment ports for container traffic.

70. There are persistent demands from the Andaman and Nicobar Islands and Lakshadweep for more flexible norms for determining the cost for funding and implementing projects. Having regard to their special needs, I have agreed to these demands. We will also ensure that the Island Development Authority is activated to accelerate development in these strategic islands.

71. I am happy to inform Hon'ble Members that the Members of Parliament Local Area Development Scheme (MPLADS) is being continued in the current year. Adequate funds are being made available for this scheme.

72. The total non-plan expenditure in 1996-97 is placed at Rs.150,013 crore compared to Rs.123,651 crore in BE [Budget Estimate] 1995-96 and Rs.134,320 crore in RE [Revised Estimate] 1995-96. Of the increment, Rs.8,000 crore is on account of increase in interest payments, the provision for which is now placed at Rs.60,000 crore. The provision for Defence expenditure has been increased from Rs.26,879 crore in RE 1995-96 to Rs.27,798 crore. I assure Hon'ble Members that, if required, more funds will be made available in order to equip and keep our armed forces in fighting fit condition.

73. I have already referred to the major new initiatives for giving an impetus to agriculture and irrigation. The increase on account of higher subsidies for phosphatic and potassic fertilisers will be Rs.1,724 crore over last year's provision of Rs.500 crore. The enhanced subsidies are expected to lead to a balanced use of various fertilizers for better soil health and productivity.

74. The provision for food subsidy has also been increased from Rs.5,500 crore to Rs.5,884 crore.

75. A provision of Rs.449 crore has been made for writing off the outstanding interest and conversion of loans into equity in the subsidiaries of Bharat Yantra Nigam Ltd., Bharat Bhari Udyog Ltd. and Hindustan Paper Corporation Ltd. under BIFR approved revival plans. In addition, a provision of Rs.1,270 crore has been made for non-plan loans to public sector enterprises mainly for payment of salaries and wages to the employees.

76. I now turn to the revenue receipts. Gross tax revenues at the existing rates of taxation are estimated at Rs.129,453 crore. After providing Rs.34,451 crore as the share of taxes of the States, the Centre's net tax revenue will be Rs.95,002 crore. Non-tax revenues, an important component of our receipts, have also shown healthy buoyancy. The receipts under this head, which were estimated at Rs.29,103 crore in RE 1995-96 are expected to be Rs.33,035 crore this year. I am confident that we can do better under some heads. I have taken credit for Rs.2,500 crore as license fee from private operators of cellular and basic telecom services.

77. The net revenue receipts for the Centre, including non-tax receipts, are expected to increase from Rs.110,191 crore in RE 1995-96 to Rs.128,037 crore in 1996-97.

78. In the area of capital receipts, traditional market borrowings are placed at Rs.3,700 crore. Other medium and long-term loans are estimated at Rs.21,798 crore. Net external assistance will be Rs.2,461 crore. I am also taking credit for receipts from disinvestment of equity in public sector enterprises of Rs.5,000 crore. Total receipts at the existing rates of taxation are estimated at Rs.195,774 crore while total expenditure is Rs.204,698

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crore. I shall come to the Budget deficit and the fiscal deficit in Part B of my speech.

79. Now, I turn to my tax proposals.

80. The good news is there are no new direct taxes save one and even that solitary new tax, I am confident, will be almost universally welcomed.

81. There are pressing demands from all sections of society to raise the threshold limit for personal income-tax from the existing level of Rs.40,000 to at least Rs.60,000. Each increase of Rs.1,000 in the threshold limit will cost the exchequer Rs.150 crore and, since 77.5 per cent of this loss will be borne by the States, any major concession on this front will put a severe strain on the States' financial resources. Besides, when the direct tax base is already narrow — only 110 lakh persons pay income-tax — no Finance Minister can afford to let 20 or 30 lakhs of them go out of the net. However, I accept the need to provide relief to the assessees in the first tax bracket, especially the salaried class. I propose to do so in two ways: first, I propose to reduce the income-tax rate for the first bracket from 20 per cent to 15 per cent. This benefit will be available to all assessees. I also propose to raise the standard deduction from Rs.15,000 to Rs.18,000 for salaried employees having an income upto Rs.60,000. Thus, a salaried employee with an income of Rs.60,000 per year, making the minimum contribution to his provident fund, will now pay no tax at all. If he has no savings, he will still pay only Rs.300.

82. We owe a special consideration to our senior citizens. At present, senior citizens benefit from a special tax rebate of 40 per cent upto an income level of Rs.100,000. I propose to raise this to Rs.120,000.

83. House-owners, residing in their own houses that have been financed by borrowing, deserve relief. The deduction of interest payments of Rs.10,000 allowed to them from their income from property is proposed to be raised to Rs.15,000.

84. As another relief measure, I propose to raise the limit under section 80D of the Income-tax Act for deduction in respect of insurance on the health of the individual and his family members from Rs.6,000 to Rs.10,000.

85. I have already mentioned the new scheme of personal-cum-family pension being introduced by LIC. In order to encourage savings in this form, I propose to allow the contribution to the pension fund to be deducted from taxable income upto a limit of Rs.10,000 per annum. I also propose to exempt the income of such a pension fund in the LIC from the levy of income-tax.

86. At present, a five year tax holiday is available under section 80-IA to enterprises engaged in developing, maintaining and operating infrastructure facilities such as roads, highways, bridges, new airports, ports and rail systems. I propose to extend this incentive to investment in irrigation, water supply, sanitation and sewerage systems.

87. I also propose to provide a five year tax holiday under section 80-IA of the Income Tax Act to companies exclusively created to participate in research and development activities. I am also simplifying the existing procedure for giving weighted deduction under section 35(2AA) of the Income-tax Act on sums paid for scientific research to a National Laboratory or a University or an Indian Institute of Technology by deleting the condition of approval by an outside body.

88. Infrastructure funds have become an important source of capital to finance infrastructure projects. In order to encourage such funds established to mobilise resources for financing infrastructure facilities, I propose to exempt them from income-tax. Any dividend, interest or long-term capital gains of such funds or companies from investments in the form of shares or long-term finance in any enterprise set up to develop, maintain and operate an infrastructure facility will be free from income tax.

89. I also propose to allow investment in approved debentures or equity shares of public companies as eligible for tax rebate under section 88 if the proceeds of such public issues are applied to create a new infrastructure facility or to generate or distribute power. In the case of such investment, the limit of Rs.60,000 under section 88 will be raised to Rs.70,000.

90. Corporate tax rates have been reduced and simplified over the past few years and the results have been very encouraging with a significant increase in corporate taxes as a percentage of GDP. However, there are two issues which need to be addressed. The first is the promise made in the past that the corporate surcharge will be temporary. The other is the phenomenon of zero tax companies which, according to many observers, reflects an excessive degree of laxity in the tax regime. I propose to respond to the two issues as follows:

(i) I am reducing the rate of surcharge on corporation tax from 15 per cent to 7.5 per cent and hope to take a similar step in my next budget. The reduced tax burden will benefit all companies big and small.

(ii) I propose to introduce a 'Minimum Alternate Tax'(MAT) on companies. In a case where the total income of the company, as computed under the Income Tax Act after availing of all eligible deductions, is less than 30 per cent of the book profit, the total income of such a company shall be deemed to be 30 per cent of

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the book profit and shall be charged to tax accordingly. The effective rate works out to 12 per cent of book profit calculated under the Companies Act. Companies engaged in the power and infrastructure sectors will, however, be exempted from the levy of MAT.

91. As a step towards achieving a level playing field for Indian companies vis-a-vis the foreign companies, I propose to reduce the tax on long-term capital gains in the case of domestic companies from 30 per cent to 20 per cent.

92. In order to encourage savings and to channelise savings into investments in priority sectors of the economy, I propose to exempt from tax long-term capital gains if the net consideration received or accruing from the transfer of the capital asset is invested in specified assets for a period of three years or, alternatively, if the entire capital gains are invested in specified assets for a period of seven years. The assessee will now have a choice of two new savings instruments.

93. I also propose to allow depreciation in the case of fractional ownership of assets because of the need for joint financing of big, capital intensive projects by a consortium of financiers having fractional shares in the assets.

94. In order to promote efficiency in industry, I propose to provide that unabsorbed depreciation will be carried forward for a period of eight years only in the same manner as business losses.

95. The practice of sale-and-lease-back of assets results in passing of very high depreciation to the leasing concerns. This needs to be curbed. Hence, I propose to provide in the Income Tax Act that in case of sale-and-lease-back transactions, the written down value of the asset, in the hands of lessee, who was the previous owner, will be treated as cost in the hands of the lessor. This measure, while not affecting bonafide transactions, will prevent loss-making concerns from indulging in unhealthy trade-off of depreciation.

96. I find it unreasonable that commercial properties, not used by the assessee as his business, office or factory premises, should be outside the levy of wealth-tax. Accordingly, I propose to plug this unintended loophole and levy wealth-tax on such commercial properties.

97. Other measures of tax relief proposed by me include:

(i) Allowing a special deduction of Rs.15,000 to the patient or guardian of a patient of protracted diseases like cancer or AIDS involving considerable expenditure on treatment.

(ii) Exempting under section 10(24) of the Income Tax Act the income of an Association of Registered Trade Unions.

(iii) Extending 100 per cent deduction under section 80G of the Income Tax Act to —

(a) Donations made to Illness Assistance Funds established by the Central government and the State governments to meet the medical expenses of the poorest of the poor;

(b) Donations made to State and National Councils of Blood Transfusion recently set up by the Ministry of Health and Family Welfare; and

(c) Donations made to the three funds established by the armed forces of the country. These are the Army Central Welfare Fund, The Indian Naval Benevolent Fund and the Air Force Central Welfare Fund. This is my way of saluting the brave officers and jawans [soldiers] of our armed forces.

98. As a part of our obligation to SAARC [South Asian Association of Regional Cooperation] I am exempting from income tax the income of SAARC Fund for Regional Projects (SFRP).

99. In order to promote industrial development in the North-Eastern region of the country, a North-Eastern Development Finance Corporation was established in August, 1995. I propose to exempt its income from tax.

100. These proposals are likely to result in an improvement of revenue under direct taxes which is estimated at Rs.912 crore.

101. I shall now come to the proposals relating to indirect taxes.

102. Over the last few years steps have been taken to reform our indirect tax structure by reducing the number of rates, removing exemptions and by switching over to ad-valorem rates. On the customs side the peak rate of duty was reduced to 50 per cent in 1995-96 accompanied by reduction in rates down the line in respect of all commodities. Central excise duties were also revamped and moved closer to a Value Added Tax with the introduction of Modvat for capital goods and extension of input credit facilities to almost all items necessary for the manufacture of goods. These changes have contributed to the growth in industrial production, simplified the tax structure and brought about greater transparency. They have also led to strong growth in revenues, with indirect tax collections increasing by 19 per cent in each of the last two years, in spite of substantial reduction in rates. The Common Minimum Programme mandates the government to continue with tax reforms and I propose to do so.

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103. Keeping in view the twin objectives of making our industry globally competitive and providing it reasonable levels of protection in the transitional period, I propose to take measured and calibrated steps in the matter of customs tariffs.

104. The salient features of my proposals are-

— Reduction in customs duties on crude oil and other basic petrochemical intermediates.

— Reduction in the rates of customs duties on raw materials and inputs such as chemicals, plastics, natural rubber and ferrous and non-ferrous metals.
— Substantial reduction in customs duties on raw materials and components required for giving a thrust to the electronic goods sector.
— Reduction in the rate of duty on computers for giving a boost to the software industry.
— Reduction in import duty on selected machinery to modernize the textiles and garment sector.
— Removal of several anomalies in duty rates.
— Unification of rates on similar items in order to substantially reduce disputes on classification and on rates.
— Retention of only such exemptions which are necessary, for the present.

105. India has become a major producer and exporter of chemicals. This industry has shown a healthy growth in the last two years. This is an area in which India can exploit its potential of trained technical manpower and become a leading nation of the world in the production of chemicals. To achieve these objectives, I propose to take the following steps:

— Reduction in the duty rate on crude oil from 35 per cent to 25 per cent.

— Reduction in the duty rate on bitumen from 30 per cent to 10 per cent.
— Unification of rates at 10 per cent on petro chemical building blocks such as cumene, toluene and cyclohexane.
— Reduction in the rate of duty on chemicals, both organic and inorganic, from 50 per cent to 40 per cent.

106. Our textile industry employs millions of people. It is necessary to modernise it and provide an environment in which it can grow rapidly. I propose the following measures:

— Reduction in the import duty on rayon grade wood pulp from 25 per cent to 5 per cent.

— Reduction in the acrylonitrile import duty from 20 to 10 per cent.

— Reduction in the rate of duty on DMT, PTA and MEG [preceding three acronyms — expansion unknown] from 35 per cent to 25 per cent; however in the case of caprolactum the revised duty will be 30 per cent.
— Reduction in the rate of duty on artificial and synthetic fibres from 45 per cent to 30 per cent.
— Unification of the rates of duty on nylon filament yarn, polyester filament yarn and viscose filament yarn from the existing levels of 45 per cent and 40 per cent at 30 per cent.

107. I also propose a major restructuring of excise duties in the textile sector, extending the benefit of Modvat, to which I shall come a little later. I am confident that with these measures our textile industry will grow from strength to strength in the coming years.

108. Our power plants face a shortage of coal on account of growing demand and better utilisation of installed capacity. I propose to reduce the rate of duty on non-coking coal from 35 per cent to 20 per cent. I also propose reduction of coke duty from the existing level of 25 per cent to 20 per cent.

109. Our plastics industry is coming of age. I propose a reduction of duty on plastics from 40 per cent to 30 per cent. Further, on articles of plastics I propose a reduction from the existing level of 50 per cent to 40 per cent.

110. In regard to rates of duties on drugs and pharmaceuticals, I propose to retain the zero rate of duty on life saving drugs. I also propose to reduce the rate of duty on all other allopathic medicines from 50 per cent to 40 per cent. In order to make available veterinary drugs commonly used I propose to reduce the rate on specified veterinary drugs from 15 per cent to 10 per cent.

111. There has been a persistent complaint from industry that customs duty on metals is very high and this makes it difficult for downstream industry, especially capital goods, to be competitive. Industry has been demanding that the rate of duty on metals should be brought down drastically. However, realising the need to provide adequate time to our metals industry to adjust itself to global competition, I propose a modest reduction from 35 per cent or 40 per cent at present to a peak rate of 30 per cent on all metals except nickel and aluminium. On unwrought aluminium and unwrought nickel I propose to retain the current level of 10 per cent and 20 per cent respectively. On wrought aluminium I propose to reduce the duty from 25 per cent to 20 per cent and on wrought nickel from 30 per cent to 20 per cent.

112. While I do not wish to tamper with the rate of duty on machinery which stands at 25 per cent, I propose a

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reduction of duty on signaling and safety equipment for railways, airports, sea ports etc. from the current level of 50 per cent to 25 per cent.

113. The last three years have witnessed a tremendous growth in our electronic industry which has been the result of enterprise as well as the stimulation provided by sharp reduction in customs duties. In order to maintain this trend, I propose the following changes:

— On raw materials, from the existing 15 per cent to 10 per cent

— On components, from 25 per cent to 20 per cent.
— On glass shells for colour TVs, from 30 per cent to 25 per cent.
— On colour picture tubes, from 40 per cent to 30 per cent.
— On computers and computer peripherals, from 40 per cent to 20 per cent.
— Finished goods will continue to attract 50 per cent rate of duty.

114. With a view to encourage sports in the country, I also propose to reduce import duty on sports goods from 50 per cent to 30 per cent.

115. In order to give relief to professional press photographers I propose to allow them to import free of duty photographic equipment upto Rs.1 lakh. A similar concession is also being extended to accredited journalists for import of personal computer, typewriter and fax machine.

116. Telecommunication is a growing sector and will turn out to be the life-line of our economy. The existence of an efficient telecommunication net work is a prerequisite for accelerated economic growth. In order to give a boost to the efforts being made by the Department of Telecommunications, I propose that the duty on parts and sub-assemblies of telecommunication equipment be reduced from 35 per cent to 30 per cent and on finished equipment from 50 per cent to 40 per cent. In order to avoid the temptation to smuggle cellular phones, pagers and trunking handsets, I propose to reduce the customs duty on them to 30 per cent.

117. Upgradation of medical standards in the country is extremely important. I, therefore, propose to reduce the rate of duty on specified equipment, not generally made in India, and their parts from 15 per cent to 10 per cent and on other medical equipment from 40 per cent to 30 per cent.

118. Edible oils now carry a rate of duty of 30 per cent. This is an important item of daily food for the masses and we have a chronic shortage of edible oils in the country. I propose to reduce the import duty on edible oils from 30 per cent to 20 per cent.

119. Mr. Speaker, Sir, earlier in my speech I dwelt on the dire need to step up investment in infrastructure. I had also detailed the sectors to which I propose to make large allocations. I have to raise resources to meet these requirements. I intend to ask importers to share the burden of building the infrastructure in this country because, ultimately, it will help raise production and enhance competitiveness. I, therefore, propose a levy of 2 per cent as special customs duty on all imports except those that carry nil rate of duty or are imported at nil rate of customs duty for export production under the various duty free licences. This levy will not apply to gold and silver imported by eligible passengers or under special import licences. This is likely to yield about Rs.1600 crore in the current year.

120. Importers will be happy to know that the Reserve Bank of India is announcing today the withdrawal of the interest rate surcharge of 25 per cent on import finance imposed in February, 1996.

121. I now come to my proposals regarding central excise. A large number of countries in the world today have a value added tax system which has been recognised to be the most efficient form of commodity taxation. I am glad to note that some State governments are moving towards the value added tax system. The last few years of reforms have taken us closer to having a Central VAT, but there are still certain legal obstacles.

122. Our central excise structure still has 11 ad-valorem rates. The rates range from 0 to 50 per cent. Ideally there should be only four rates of excise duties — zero, a lower rate of excise duty on goods of mass consumption, a single normal rate on all other goods and a higher rate on luxury items. It is absolutely necessary for us to move towards this rate structure so that we put an end to wasteful litigation and have a transparent and simple tax structure. It was not possible in the time available to me in preparing this Budget to achieve this goal in the current year. However, I propose to take the first step this year and I am confident that we will achieve a four-rate excise duty structure in another year or two.

123. I propose to integrate the tax on the textile sector with the mainstream of central excise duties by introducing the Modvat principle in this sector. Hon'ble Members are aware that at present excise duties are levied at the fibre and yarn stage and there is only an additional excise duty, in lieu of sales tax, on fabrics. This is one of the most inefficient ways of taxation as it results in very high duties on inputs, which encourages evasion; it does not capture value addition; and it denies the industry an opportunity of claiming

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Modvat input credit on capital goods, chemicals and yarn. While modernisation of other industries is taking place speedily, our textile industry has not been able to participate fully in this process because of this lopsided tax structure. I, therefore, make the following proposals:

124. I propose to reduce the excise duty on yarn in the case of polyester filament yarn from the current level of 50 per cent to 40 per cent and unify the rates on other yarn at 20 per cent, except nylon filament yarn and cotton yarn for which the present rates of 30 per cent and 5 per cent respectively will be retained. In order to provide Modvat for the textile sector, I propose to impose a basic excise duty of 5 per cent on cotton fabrics and 10 per cent on other fabrics which will be collected at the processed fabric stage. The processors would be in a position to Modvat the duty paid on yarn imputed on the basis that yarn accounts for 50 per cent of the value of the finished fabric. I have adopted a simple procedure of imputed value to avoid the imposition of a basic duty on grey fabrics which are manufactured by thousands of powerlooms. Such powerlooms will, therefore, continue to be outside the excise net. Composite mills and textile processors will be able to avail themselves of Modvat facilities hitherto not extended to them. This restructuring of excise duty, together with the substantial reduction in customs duties on selected machinery and on inputs for the textile sector, should provide a major boost to the textile industry. I believe that this will also simplify the calculation of drawback rates for garment exporters.

125. In my proposals on customs duties, I have proposed a reduction in customs duty on crude oil from 35 per cent to 25 per cent. This is part of a restructuring and rationalisation of the duty structure aimed at encouraging efficient refineries and enabling me to shift the duties from the input stage to the product stage. I propose to make up the loss on customs duty by adjusting the excise duty upward from 10 per cent to 15 per cent on all petroleum products except LPG and kerosene. The proposed changes in customs and excise duties taken together are revenue neutral and will have no impact on the administered prices of petroleum products.

126. Honourable Members are aware that almost all articles of mass consumption are already exempt from excise duty and a large number of other widely consumed articles carry a rate of only 10 per cent. I propose to exempt some more articles from excise duty. They are:

(a) Vanaspati [edible oil] and margarine;
(b) Writing and printing paper supplied to all State Text Book Corporations;
(c) Animal fats and oils;
(d) Asbestos fibre;
(e) Metallic ores; and
(f) Tapioca products.

127. I propose to reduce the duty on the following articles:

(a) Tooth paste, from 20 per cent to 10 per cent;
(b) Detergents, from 30 per cent to 25 per cent;
(c) Boxes and bags made of paper and paperboard, from 20 to 10 per cent;
(d) Glassware produced by semi-automatic process, from 20 to 10 per cent;
(e) Glassware used for table, kitchen etc., from 15 to 10 per cent;
(f) Articles of asbestos cement, from 25 to 20 per cent; and
(g) Ceramic articles, other than glazed tiles, from 20 to 15 per cent.

128. I also propose to raise the exemption limit for footwear from Rs.50 to Rs.75 per pair.

129. The rates of excise duty on motor vehicles are not in consonance with the accepted classification of such vehicles. I therefore propose the following rationalisation:

(a) Duty on motor cars and other motor vehicles designed to carry not more than six persons, excluding the driver, will remain at 40 per cent.
(b) Duty on motor vehicles designed to carry more than 6 persons but not more than 12 persons, excluding the driver — 20 per cent
(c) Duty on vehicles for transport of persons or goods — 15 per cent.

There is no change in the duty on two-wheelers or tractors.

130. If there is one area in which a Finance Minister can both tax and please, it is cigarettes. Today, however, I shall please you only in a small way by proposing modest increases in the specific duties on cigarettes ranging from about 5 per cent to 7 per cent. In the case of non-filter cigarettes, not exceeding 60 mm in length, popularly called mini cigarettes, I propose to raise the tax by 25 per cent from Rs.60 per thousand to Rs.75 per thousand.

131. In order to encourage R&D [research and development] efforts in India I propose to exempt goods developed and patented in India and concurrently in specified countries from the levy of excise duty for a period of three years. I am also rationalising the exemption from

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customs duty for import of equipment and consumables for R&D institutions.

132. I have proposed the addition of potassium chlorate, copper powder and cigarette lighters to the list of goods eligible for duty exemption under the SSI [smale-scale industries] scheme. The reduction in import duties proposed elsewhere will also substantially benefit the small scale industries. In order to benefit hundreds of small scale manufacturers of matches I have decided to dispense with the physical control system operating on them and introduce the self-removal procedure freeing them from the day to day bother of control. I hope SSI match units will respond with substantial increase in payment of excise duties.

133. I have proposed rationalisation of rates and exemptions both in customs and excise in several other areas. I would not like to take the time of the House by going into these details.

134. Our excise procedures are outdated and not in tune with the times. They need to be modified. They should encourage voluntary compliance with tax laws by the tax payers. With effect from 1st October, 1996, assessees would no longer be required to furnish copies of invoices along with the monthly returns. All that they would be required to furnish to the excise department will be a simple return indicating the duty paid on self-assessment basis. Wherever possible the assessees' computers could also be linked to the Department's computers for on line assessment.

135. I also propose to introduce a scheme of selective audit by the excise officers and dispense with the existing scheme of routine examination and checking of returns and documents furnished by the assessees. This scheme would also come into force from 1st October, 1996.

136. I am sure that these changes would be widely welcomed by the manufacturers who are required to pay excise duties and I expect them to comply with the laws faithfully. However, I wish to affirm government's resolve to deal with tax evaders sternly. I am proposing suitable changes in the Customs and Excise Acts to provide for mandatory penalty, together with interest, for evasion of duties on account of fraud, collusion, mis-statement or suppression of facts. Henceforth, the mandatory penalty for evasion of duty on these counts shall be equal to the amount of duty evaded. Tax evaders would also be required to pay interest starting from the first day of the succeeding month in which the duty evaded ought to have been paid and also face criminal prosecution.

137. Mr. Speaker, Sir, the Central Excise and Salt Act, 1944, reminds us of the colonial era when excise duty was collected on salt. There is no excise duty on salt and hence the reference to salt is outdated. I propose to delete all references to salt.

138. The Modvat scheme which provides for duty credit on inputs and capital goods has been liberalised considerably over the past few years. Still, there are problems about the coverage of certain inputs and capital goods. I propose to clarify the scope of eligible capital goods by specifying the heading and sub-headings of the tariff relating to capital goods in the Modvat Rules. It is also a matter of concern that there is misuse of the Modvat credit scheme. At present, Modvat invoices can be issued by any dealer registered with the excise department and this facility is reportedly being misused. Therefore, I propose to restrict the issue of Modvatable invoices by dealers upto two stages. Suitable provisions are also being made in the Modvat Rules for charging of interest in the case of wrong availment of Modvat credit and for mandatory penalty for misuse of Modvat facility.

139. The tax on services has come to stay. With a view to widening the tax base, I propose to bring in advertising services, radio paging services and courier services under the tax net. The tax on these services will be at the rate of 5 per cent. While this measure is expected to yield Rs.150 crore in a full year, I am taking credit only of Rs.70 crore in the current year.

140. My proposals relating to reduction in customs duties are estimated to result in a loss of Rs.650 crore in the remaining part of the current financial year. However, by taking into account receipts from the special customs duty estimated to be Rs.1600 crore, there will be a net gain of Rs.950 crore in customs revenue.

141. In the case of excise duties, including additional excise duties, a gain of Rs.760 crore is estimated. Of this, the States are likely to get Rs.384 crore as their share of excise duties.

142. I now have something to say on behalf of my colleague, the Minister of Communications. Postal rates, some of which were last revised in 1990, do not meet even the direct cost of most of the services resulting in increasing budgetary support. Notwithstanding this, no change in the rates of ordinary postcard, letter, parcels and other postal services is being proposed. A modest increase is proposed only in respect of two services which are used for business and commercial purposes. The rate of the printed post card is being increased from 60p. to Re.1 and the registration fee is being increased from Rs.6 to Rs.8. It has also

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been decided to introduce a new category of postcard, called Competition Postcard, which alone may be used for responding to any competition organised on or through television, radio, newspapers or magazines. It is proposed to remove the unintended subsidisation by fixing the tariff for this category of postcard at Rs.2. The changes will take effect from a date to be notified after the Finance Bill is passed. The revisions proposed are estimated to yield a modest revenue of Rs.38 crore in 1996-97, still leaving a large postal deficit.

143. Copies of notifications giving effect to the above changes in customs and excise duties will be laid on the Table of the House in due course.

144. My budget proposals have many implications both for the expenditure side and the revenue side. However, Honorable Members will be pleased to know that the end result is satisfactory. The revenue deficit in 1996-97 is placed at Rs.31,475 crore or 2.5 per cent of GDP which is significantly lower than Rs.33,331 crore in RE 1995-96 or 3 per cent of GDP. The fiscal deficit comes to Rs.62,266 crore in 1996-97, which is lower than the figure of Rs.64,010 crore in RE 1995-96. As a percentage of GDP, the fiscal deficit is 5 per cent in 1996-97 compared to 5.9 per cent in the previous year. I hope to do better in my next budget and move along the path of reducing the deficit below 4 per cent.

145. Mr. Speaker, Sir, at the end of this exercise, I ask myself what is a budget about? While it is a measure of the health of the economy, it is also a mirror to the travails and aspirations of the people. 2000 years ago, Saint Tiruvalluvar laid down the golden rule for the King's Ministers: "Iyattralum, eettalum, kattalum, katta Vakuthalam Vallath Arasu" (To be able to increase wealth, to lay it up and guard, And also well to distribute it, marks a royal lord.)

146. I have made an attempt to raise revenues without putting any burden upon the poor, to allocate large resources for agriculture, irrigation, infrastructure and the social sector, to provide more funds for basic minimum services, to give tax reliefs to the salaried and the middle classes and to promote savings and investment. I have strived to serve the seven objectives that I declared at the outset.

147. The Common Minimum Programme is absolutely right when it says that the country's GDP needs to grow at over 7 per cent per year in the next 10 years in order to abolish poverty and unemployment.

148. I believe that our economy is on a high growth curve. Wisdom dictates that we remain on that curve. In order to do so, we need more reforms, not less. We need more resources, not less. We need more discipline, not less. And we need more compassion, not less. If we remain true to the Common Minimum Programme, we shall overcome our difficulties and take India to the frontline of the nations of the world. This budget, my maiden effort, attempts to blend — I hope in the right proportions — courage and compassion, reform and restraint and growth and social justice.

149. Mr. Speaker, Sir, with these words, I commend this budget to this august House.

India: Minister Defends Budget Proposals; Other Reaction Noted

BK2307043396 Delhi All India Radio Network in English 0245 GMT 23 Jul 96

[FBIS Transcribed Text] The finance minister has said the union budget for 1996-97 addresses three major challenges facing the economy. These are fiscal deficit, infrastructural constraints and unemployment, and poverty alleviation. Mr. Chidambaram was participating in a radio bridge program broadcast by the news services division of All India Radio last night. He said efforts have been made to increase investments in agriculture, education, and other social sectors in line with the Common Minimum Program of the United Front. The finance minister said the cuts in customs and excise duties are expected to help check inflation, and the government will take necessary steps to ensure that the benefits are passed on to the consumers. Mr. Chidambaram denied allegations that the country is falling into a debt trap and said the budget takes a small but significant step to reduce government borrowings.

Political parties have reacted to the budget on expected lines, while trade and industry have generally welcomed it as a well-balanced exercise. The Congress said there is a good deal of continuity in the budget and the left parties — the CPI [Communist Party of India] and the CPI-M [Communist Party of India-Marxist] — felt that the budget recognizes some of the major concerns of the United Front's Common Minimum Program. The Bharatiya Janata Party and its allies, like the Samata Party, on the other hand criticized the budget saying it carries out the unfinished agenda of the Congress party. Constituents of the United Front—like the Janata Dal, the Samajwadi Party, the DMK [Dravida Munnetra Kazhagam], and the Tamil Maanila Congress, and the Asom Gana Parishad—as well as the chief ministers of Andhra Pradesh, Assam, Bihar, Tamil Nadu and West Bengal have welcomed the budget. Some of them, however, felt that there was scope for more revenue mobilization.

Trade and industry have complimented the finance minister for the major thrust on infrastructure sector. Cham-

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bers of commerce and industry like ASSOCHAM [Associated Chambers of Commerce], FICCI [Federation of Indian Chambers of Commerce and Industry], and CII [Confederation of Indian Industry] welcomed the setting up of the infrastructure development finance company, saying it was a clear recognition of the problems facing the sector. There was, however, some disappointment at the introduction of the minimum alternative tax for zero tax companies and no proposal to open up the insurance sector. The RBI [Reserve Bank of India] governor, Mr. Rangarajan, felt that there will not be too much inflationary pressure because of the budget proposals, and the rate of inflation will be around 6 to 7 percent. Stocks markets across the country reacted cautiously during yesterday's post-budget trading sessions. Markets welcomed the proposal to raise the ceiling on investment by foreign institutional investors—FII's—in listed companies from 5 to 10 percent.

India: 'Most' Political Parties Welcome Federal Budget

BK2207161796 Delhi All India Radio Network in English 1530 GMT 22 Jul 96

[FBIS Transcribed Text] The prime minister has said that a very significant beginning has been made through the budget to ensure rapid economic growth with social justice. Mr. Deve Gowda said the budget represents a fine mix of initiatives for rapid growth in agriculture and industry, removal of poverty, and measures for furthering economic reforms and self-reliance. He said that for the first time a special provision has been made for solving the housing problem in urban slums.

Most political parties have welcomed the budget. The president of the Indian National Congress, Mr. Narasimha Rao, described the budget as good. The All India Indira Congress-Tiwari leader, Mr. N.D. Tiwari, called the budget as an excellent exercise to control inflation. The Janata Dal working president, Mr. Sharad Yadav, said that the proposals are in tune with the United Front's Common Minimum Program. The CPI-M [Communist Party of India-Marxist] leader, Mr. Somnath Chatterjee, said it is growth-oriented. Mr. Gurudas Dasgupta, CPI [Communist Party of India], however, criticized the budget calling it a marginal and (?concealed).

The Bharatiya Janata Party described the budget as having too much of populism and too little realism. Briefing newsmen, the party spokesman, Mr. Jaswant Singh, said the budget is carrying out the unfinished agenda of the Congress Party. The party leader, Mr. Atal Behari Vajpayee, criticized the budget as one which will spiral the price rise.

India: Finance Ministry's 'Economic Survey 1996'

BK2007152496 (Internet) Ministry of Finance of India WWW in English 19 Jul 96

["Economic Survey 1996" issued by the Indian Finance Ministry in New Delhi on 19 July]

[FBIS Transcribed Text]

REVIEW OF DEVELOPMENTS

Macroeconomic Overview

1. The Economic Survey 1995-96 noted that India recorded one of the fastest recoveries from a macroeconomic and balance of payments crisis. It also stated that the growth achieved in the post-crisis period was a noteworthy achievement by international standards and was more sustainable than the growth in the immediate pre-crisis period. Data which has become available since then shows an even more buoyant outcome (Table 1). Overall economic growth of GDP at factor cost, after rising to 6.3 per cent in 1994-95, accelerated further to 7 per cent in 1995-96. More remarkably, this is the first time that a growth rate of this magnitude was not due to exceptional agricultural growth. Since 1970-71, there have been only five years in which the growth rate reached or exceeded 7 per cent. Every one of these years was associated with a growth rate of 10 per cent or higher in the agriculture, forestry and fishing sector. In 1995-96, not only was the growth of this sector low, at 2.4 per cent, it was lower than the average growth of the agriculture and allied sectors over the nineties. The high growth was therefore due mainly to the 11.7 per cent growth of industry and construction sector and the 7 per cent growth of the services sector (Table 2). Overall economic growth during the first four years of the Eighth Plan averaged 5.9 per cent per annum, a rate significantly higher than the Plan target of 5.6 per cent.

2. Industrial production grew by 12.4 per cent during April 1995 to February 1996, while agricultural crop production is estimated to have grown by only 0.9 per cent. The decline in foodgrain production by 0.4 per cent in 1995-96, coupled with high levels of open market sales, has reduced public food stocks from a record level of 35.6 million tonnes in July 1995 to 22.7 million tonnes in April 1996. At this level, food stocks are 50 per cent larger than the prescribed buffer stock norms. However, the watchword must be prudent and cautious management. On the inflation front, the resurgence of inflationary pressure in 1994-95 was significantly reversed in 1995-96. Inflation, as measured by the WPI, dropped from a high of about 12 per cent in January 1995 to a low of 4.2 per cent (provisional) on June 22, 1996. The recent increase in administered prices of

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petroleum products is likely to result in a one time jump in the rate of inflation, with a gradual tapering off to the underlying inflation rate.

Table 1. Key Indicators

	1992-93	93-94P	94-95P	95-96P	1992-93	93-94P	94-95P	95-96P
	Absolute Values					Percent change over prior year		
1	2	3	4	5	6	7	8	9
Gross domestic product								
(Rs.thousand crore)								
At current prices	630.2	723.1	854.1Q	NA	14.0	14.7	18.1Q	NA
At 1980-81 prices	224.9	236.1	251.0Q	268.7R	5.1	5.0	6.3Q	7.0R
Gross national product								
(Rs.thousand crore)								
At current prices	618.4	708.5	839.5Q	NA	13.9	14.6	18.5Q	NA
At 1980-81 prices	220.1	230.1	245.6Q	263.3R	5.0	4.5	6.7Q	7.2
Agricultural	151.5	156.8	164.6	166.1P	4.1	3.5	5.0	0.9P
Production (1)								
Food grain production (million tonnes)	179.5	184.3	191.1	190.4P	6.6	2.7	3.7	-.4P
Industrial production (1980-81=100)	218.9	232.0	253.5	279.8(2)	2.3	6.0	9.3	12.4(2)
Electricity generated (TWH)	301.1	323.5	351.0	379.7	5.0	7.4	8.5	8.2
Wholesale price index (3) (1981-82=100)	233.1	258.3	285.2	299.5	7.0	10.8	10.4	4.4
Consumer price index industrial workers (4) for (1982=100)	243.0	267.0	293.0	319.0	6.1	9.9	9.7	8.9
Money supply (M3)(5)(Rs.thousand crore)	366.8	434.4	531.4	600.5	15.7	18.4	22.3	13.0
Imports at current prices (6)								
(Rs. crore)	63375	73101	89971	121647	32.4	15.3	23.1	35.2
(US $ million)	21882	23306	28654	36370	12.7	6.5	22.9	26.9
Exports at current prices (6)								
(Rs. crore)	53688	69751	82674	106465	21.9	29.9	18.5	28.8
(US $ million)	18537	22238	26330	31830	3.8	20.0	18.4	20.9

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	1992-93	93-94P	94-95P	95-96P	1992-93	93-94P	94-95P	95-96P
	Foreign currency assets (End of Period)							
(Rs. crore)	20140	47287	66006	58446	38.2	134.8	39.6	-11.5
(US $ million)	6434	15068	20809	17044	14.3	134.2	38.1	-18.1
Exchange rate (Rs/ US $)	28.96	31.37	31.40	33.45	14.9	7.7	0.1	6.1
	(7) (Period Average)							

Note: Gross national product and Gross domestic product figures are at factor cost.

NA-Not available; P-Provisional; Q-Quick estimates; R-Revised Advance Estimates.

1. Index of agricultural production (principal crops) with base triennium ending 1981-82=100.

2. April-February 1995-96.

3. As on end March, percentage change relate to point to point change in the index over the year.

4. As on March, percentage change relate to point to point change in the index over the year.

5. As on end March.

6. Figures relate to customs-based data compiled by DGCI&S and differs from payment based figures given in Table 6.

7. Per cent change indicates the rate of depreciation of the Rupee vis-a-vis the US$.

Table 2 Growth, Savings and Investment

Sectors	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96
				(P)	(Q)	(R)
	Annual Growth Rates in Real GDP by Sectors					
1. Agriculture & Allied	3.8	-2.3	6.1	3.3	4.9	2.4
2. Industry	7.2	-1.3	4.1	4.2	8.3	11.7
3. Services	5.2	4.9	5.1	6.8	6.0	7.0
4. Gross domestic product at factory cost	5.4	0.8	5.1	5.0	6.3	7.0
	As Percentage of GDP at Current Market Prices					
5. Gross domestic savings	23.6	22.8	21.2	21.4	24.4	NA
6. Gross domestic capital formation ●	27.0	23.4	23.1	21.6	25.2	NA
7. Gross fixed capital formation	23.2	22.1	22.6	21.5	22.5	NA
8. Change in Stocks	2.1	0.6	1.5	-0.2	0.6	NA

P : Provisional Estimates
Q : Quick Estimates
R : Revised Advance Estimates
● : Adjusted for errors and ommisions
NA: Not available

Note: Industry includes mining & quarrying, manufacturing, electricity, gas, water supply, and construction.

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3. The economic reforms have led to a marked and favourable turnaround in the performance of the external sector since the crisis of 1991. Highlights include:

— a strong and sustained recovery in export growth;

— a pronounced rise in the ratio of exports to imports from the level prevailing at the turn of the decade;

— a substantial decline in the current account deficit as proportion of GDP from the unsustainable level of 3.2 per cent in 1990-91;

— strong growth in foreign direct investment flows since 1991-92 and in foreign portfolio investment flows since 1993-94; and

— an increase in foreign currency reserves from $2.2 billion in March 1991 to over $20 billion in March 1995 which, however, declined to $17 billion in March, 1996.

However, during 1995-96, though export growth remained buoyant at 21 per cent in dollar terms, the balance of payments came under some pressure from the continued surge in import growth (which had started in 1994-95), a substantial decline in portfolio investment flows in the form of GDRs [Global Depository Receipts] and a sizeable increase in debt service payments on liabilities accumulated in earlier years.

4. During April-May 1996, both export and import growth have slowed from last years pace. Exports grew by 14.4 per cent, in dollar terms, over the corresponding period of 1995, while imports grew by 23.4 per cent (DGCI&S [expansion unknown] data). The recent aggregate import growth figures, however, mask two potential trends, one positive and the other negative. While non-POL [Petroleum Oil and Lubcricants] import growth at about 17.2 per cent in the first two months of 1996-97 is about half that for the corresponding period of last year, POL growth has almost tripled to 47.6 per cent. This is at least partly attributable to non-adjustment of domestic oil prices for two and a half years, delays in decontrol of energy prices and lack of fair and transparent procedures for entry of private producers in the energy sector. The apparent slowdown in the growth of exports is also a cause for concern. However, foreign investment flows have remained buoyant, with net FII [Foreign Institutional Investement] inflows exceeding $1 billion in the first quarter of 1996-97. Foreign currency reserves have risen from $17.0 billion at the end of March 1996 to $17.5 billion at the end of June 1996.

5. Though no official estimates are as yet available on savings and investment performance during 1995-96, there are some early indications of likely trends. The continued high growth in capital goods production, the acceleration in the growth of cement production and the higher growth of capital goods imports in 1995-96 suggests that private fixed investment continued to grow strongly in 1995-96. Data on aggregate savings performance is not available and the indications regarding net flow of savings through the financial system is somewhat mixed. While there was continued substantial growth of commercial bank credit to the non-food commercial sector, and gross disbursements by development financial institutions also recorded a sizeable increase of 18 per cent, the amount of capital raised through the primary market issues declined by as much as 24 per cent in 1995-96 and inflows through GDRs were low.

6. The expansion in bank credit to the commercial sector would have been higher but for the continued high levels of borrowing required by the Central Government to finance its fiscal deficit, which exceeded the budget estimate of Rs. [rupees] 57,634 crores and rose to Rs.64,010 crores (RE) in 1995-96. The buoyant demand for investible funds by the private sector combined with continued strong need for borrowings by Government ensured that nominal interest rates remained high despite the decline in the rate of inflation observed during 1995-96. Thus, by the end of the last fiscal year, although the point-to-point rate of annual inflation had dropped below 5 per cent, most banks were still lending to prime customers at interest rates in the range of 17 to 20 per cent. Sooner or later such high real interest rates (in excess of 12 per cent) are likely to hurt the growth of investment and production. The only way to ease the availability of investible funds to producers and investors without risking the resurgence of inflation and pressure on the external sector is to reduce the borrowing requirements of Government, that is, the fiscal deficit.

7. There are also some indications that the slow pace of economic reform in key government-dominated infrastructure sectors, such as electric power, and unresolved problems and constraints in the agricultural sector could undermine the recent pattern of accelerating aggregate economic growth. Since the latter part of 1995-96 and including the first two months of 1996-97, the rate of growth of electricity production has been slowing. The rail and road transport system and port capacities are also under strain. These are areas where economic reforms have been slow to take-off. Similarly, the growth of agriculture and allied sectors which was on the low side at 2.4 per cent in 1995-96, is projected again at 2.3 per cent by CSO [Central Statistics Organization] for 1996-97 even assuming a normal monsoon. Sustained acceleration in overall GDP growth requires an acceleration in agricultural growth to around 4 percent per year.

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8. In a nutshell, sustaining the high growth trajectory attained in the last two years will require compression of the fiscal deficit, quick reforms in critical infrastructure areas, reinvigoration of agricultural growth and continued strength in the external sector.

Production

9. Growth of agricultural crop production, which averaged over 4 per cent per annum during 1992-93 to 1994-95, slowed to 0.9 per cent in 1995-96. Foodgrains production which had risen to a new peak of 191.1 million tonnes in 1994-95 may also be marginally lower at 190.4 million tonnes in 1995-96, because of a decline in wheat output. Public food stocks which peaked at a high of 35.6 million tonnes in July 1995, declined because of open market sales by the Food Corporation of India. In April 1996, at 22.7 million tonnes, they remain, however, over 50 per cent larger than the buffer stock norm. Reform of customs tariffs, trade policy and the exchange rate system have substantially reduced the bias against agriculture and thus improved the relative profitability of agriculture. More directly, increases in procurement and minimum support prices of foodgrains and freeing of some controls on domestic and international trade in agricultural commodities have improved incentives and widened the opportunities open to farmers. During the year 1995-96, 5.6 million tonnes of rice were exported. All this has contributed to an improvement in the terms of trade for agriculture. Studies by the Commission on Agricultural Cost and Prices show that the index of terms of trade (with base 1969-72) improved significantly from 89.9 in 1990-91 to 98.7 in 1994-95.

10. Investment in agriculture remains an area of concern and could be a significant part of the explanation for the recent growth slowdown. Though improved incentives for the agricultural sector as a whole have played a role in generating an average growth in crop production of 3.4 per cent per annum during the past four years, the slowdown of production growth to 0.9 per cent in 1995-96, despite a normal monsoon, is a cause for concern.

11. One significant problem confronting agriculture, namely the distorted pattern of farmgate prices for three kinds of fertilizer (nitrogenous, phosphatic and potassic) was addressed in early July, 1996 through increases in the subsidy (per tonne) of phosphatic and potassic fertilizers. This should help in moving the NPK [Nitrogen, Phosphorous, Potassium] application pattern from the current distorted ratio of 9:3:1 towards the more ideal pattern of 4:2:1.

12. The strength of industrial growth throughout 1995-96 has been confirmed by data which has become available since the Economic Survey 1995-96 was written. The acceleration in growth has been maintained, with the growth of 9.3 per cent in 1994-95 followed by 12.4 per cent during 1995-96 (April-February, over corresponding period of the previous year). The capital goods sector maintained its position as an important contributor to the industrial surge with a growth rate of 20.4 per cent during 1995-96 (April-February), on top of the 1994-95 growth of 24.9 per cent (Table 3). Industrial growth has not only been high during the last two years but has also been broad-based. In 1994-95, the growth of 9.3 per cent in the general index of industrial production (IIP) was due to a growth of 9.7 per cent in manufacturing, 8.5 per cent in electricity generation and 7.3 per cent in mining and quarrying. During April-February, 1995-96, overall growth of 12.4 per cent was due to a growth of 13.9 per cent in manufacturing, 8.3 per cent in electricity and 7.4 per cent in mining. A similar growth profile is mirrored in the use-based classification, where this overall growth in April-February, 1995-96 has come from a 20.4 percent growth in capital goods.

Table-3 Annual Growth Rates in Major Sectors of Industry (Per Cent)

Sectors	Weights	1990-91	91-92	92-93	93-94	94-95	Apr-Feb	
							1994-95	95-96
Manufacturing	(77.11)	9.0	-0.8	2.2	6.1	9.7	9.9	13.9
Mining & Quarrying	(11.46)	4.5	0.6	0.5	3.5	7.3	7.6	7.4
Electricity	(11.43)	7.8	8.5	5.0	7.4	8.5	8.7	8.3
General	(100)	8.2	0.6	2.3	6.0	9.3	9.5	12.4
Basic Goods	(39.4)	3.8	6.2	2.6	9.4	5.3	5.4	9.0

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Sectors	Weights	1990-91	91-92	92-93	93-94	94-95	Apr-Feb	
Capital Goods	(16.4)	17.4	-12.8	-0.1	-4.1	24.9	26.2	20.4
Intermediate Goods	(20.5)	6.1	-0.7	5.3	11.7	3.7	3.8	10.3
Consumer Goods	(23.6)	10.4	-1.8	1.9	4.0	8.7	8.6	12.9
Consumer Durables	(2.6)	14.8	-12.5	-0.7	16.1	10.2	11.3	38.0
Consumer Non-Durables	(21.0)	9.4	1.2	2.5	1.3	8.4	7.9	6.6

12.9 per cent growth in consumer goods, 9 per cent growth in basic goods and 10.3 per cent in intermediate goods.

13. Though the performance of the core sector, which was quite satisfactory during 1994-95, has been sustained in 1995-96, a few areas of potential concern have emerged. In 1995-96 electricity, coal, steel, cement, crude oil and petroleum products, with a combined weight of 28.8 per cent in IIP, showed a growth rate of 7.7 per cent, compared with 7.8 per cent in 1994-95 (Table 4). Electricity generation grew by 8.2 per cent, crude oil by 7.2 per cent, coal by 6.4 per cent, saleable steel by 8.9 per cent and cement by 11.2 per cent. The rates of growth of coal and cement have accelerated, while those of electricity and crude oil have declined, in both 1995-96 and 1996-97 (April-May). The IIP for electricity generation shows a sharp drop in annual (point-to-point) growth from August-September 1995 onwards, dropping to 5.1 per cent in the third quarter of 1995-96, but recovering marginally to 5.8 per cent in January-February 1996. Electricity generation has continued to decline in 1996-97, with only a 3.6 per cent growth in April-May 1996. Though the deceleration of growth in 1995-96 and 1996-97 is due primarily to reduced hydro-electric generation (-12.5 per cent and -16.2 per cent respectively), this again points to the urgency of power sector reform. Crude oil production actually declined by 7.7 per cent in April-May

Table-4 Growth Rates of Core and Infrastructure Sectors (Per cent p.a.)

Sectors	Weight	90-91	91-92	92-93	93-94	94-95	95-96	95-96	96-97
	(IIP)							(April-May)	
Basic Infrastructure Sectors									
1. Electricity Generation	11.4	7.8	8.5	5.0	7.4	8.5	8.2	11.1	3.6
a) Thermal incl. nuclear	5.1	11.1	8.1	9.5	6.1	14.5	11.0	8.0	
b) Hydro	15.2	1.4	-4.0	0.8	17.2	-12.5	11.4	-16.2	
2. Coal	6.6	5.4	8.3	3.9	3.3	3.2	6.4	7.1	14.9
3. Saleable steel	5.2	3.1	8.1	3.9	6.2	8.3	8.9	10.3	5.9
4. Crude oil	2.4	-3.1	-8.1	-11.2	0.3	19.3	7.2	32.6	-7.7
5. Refinery throughput	1.5	-0.3	-0.7	4.0	1.5	3.8	3.6	10.8	10.2
6. Cement	1.6	6.6	5.9	5.0	6.8	7.6	11.2	7.7	13.9
Over All	28.8	5.0	6.4	3.1	5.5	7.8	7.7	11.6	6.6
Other Infrastructure Sectors									
1. Fertilizers	6.0	8.0	-0.8	-6.7	15.4	8.6	7.1	-18.7	

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Sectors	Weight	90-91	91-92	92-93	93-94	94-95	95-96	95-96	96-97
2. Cargo handled at major ports	3.0	3.3	5.7	7.6	10.0	9.0	6.3	11.1	
3. Net Telephone Connections	14.7	51.5	34.2	24.5	44.0	20.8*	-0.4*	16.1*	
4. Revenue earning goods traffic on railways	2.7	6.2	3.6	2.5	1.7	7.0	5.8	7.4	

1996-97 over the corresponding period of 1995-96. Infrastructure sectors not included in the IIP showed satisfactory performance in 1995-96, with new telephone connections growing by 20.8 per cent, cargo handled at major ports by 9 per cent and revenue generating traffic of the railways by 7 per cent. During 1996-97 (April-May), the growth rates of these sectors have been 16.1 per cent, 11.1 percent and 7.4 percent, respectively.

Money and Prices

14. Monetary management in 1995-96 achieved the twin objectives of reducing the annual inflation rate and providing credit support for production. Money supply (M3) growth was reduced to 13 per cent in 1995-96 (from 22.3 per cent in 1994-95) taking March 31, 1995 as the base1. The slower monetary expansion is partly attributable to the higher base but also to the unusually slow growth in bank deposits and partly to the decline in reserve money growth to 14.8 per cent (from 22.1 per cent in 1994-95). This deceleration occurred despite a sharp expansion in net RBI [Reserve Bank of India] credit to Central Government by 25.1 per cent. As a result of rising private demand for credit, banks which had an excess (over SLR [Statutory Liquidity Ratio] requirements) holding of Government and other approved securities, contributed only Rs.14,766 crores to the market borrowing of the Government compared to a contribution of Rs.16,323 crores in 1994-95. This necessitated sizable support by the RBI to market borrowing of the Government, which, in turn, increased the growth of net RBI credit to the Centre. The resulting growth in reserve money would have been much higher but for the reduction in net foreign assets of the RBI associated with the $3.8 billion decline in foreign currency reserves in 1995-96.

15. Slower monetary growth was accompanied by the deceleration in the growth of bank credit to the commercial sector to 15.7 per cent in 1995-96, compared to 23.1 per cent in 1994-95. There was a similar deceleration in the growth of scheduled commercial banks non-food credit to 21.6 per cent in 1995-96 as compared to 29.8 per cent in the preceding year. Though non-food credit growth slowed down in 1995-96, it still grew much faster than nominal GDP and at least as fast as industrial production in rupee value. The slowdown in non-food bank credit growth in 1995-96 was compounded by a decline in other sources of finance to industry such as primary issues in the domestic equity market and GDR issues in Euro markets. Furthermore, the continued high levels of Government borrowing associated with a large and over-budget fiscal deficit kept credit markets tight and interest rates high throughout the year.

16. The credit policy for 1996-97 has targeted a monetary growth of 15.5 per cent to 16 per cent, based on a target inflation of around 6 per cent and a projected GDP growth of 6 per cent. Since CSO [Central Statistics Organization] is now projecting higher economic growth at 6.6 per cent in 1996-97, monetary growth targets may need to be revised upwards a little. Monetary growth during the current financial year has risen gradually, to reach an annual rate of 16.8 per cent by June 7, 1996. This has happened despite a halving of the annual rate of reserve money growth from 14.8 per cent at the end of 1995-96 to 7 per cent by June 7, 1996. The reasons for higher monetary growth include a pick up in the growth of bank deposits and cumulative easing of reserve requirements, including a reduction in CRR from 14 per cent last year to 13 per cent on May 11, 1996 (partly offset by rationalisation of export refinance), and further to 12 per cent on July 6, 1996. Non-resident External (Rupee) Deposits have been exempted from CRR [Cash Reserve Ratio] obligations since April, 1996.

17. The annual rate of inflation (based on the WPI [wholesale price index]) declined from 10.4 per cent at the end of 1994-95 to a low of 4.4 per cent at the end of 1995-96. This performance is not only better than the earlier expectations of an inflation rate of 7 per cent to 8 per cent by the end of 1995-96, but also lower than the

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forecast in the Economic Survey of 1995-96 (6 to 7 per cent). The annual rate of inflation has remained low at 4.2 per cent until June 22, 1996. The success in reducing inflation from an annual rate of 12 per cent in January 1995 to below 5 per cent in January 1996 is attributable to a combination of factors including the deceleration in monetary growth, high levels of open market sales of foodgrains, a liberal import policy, especially for essential commodities, and the surge in domestic supply associated with the acceleration of economic growth to 7 per cent. The delay in adjustment of administered prices also played a role.

18. The deceleration in growth of prices was seen in all the three sub-groups. Primary articles showed an increase of 4.1 per cent in 1995-96 which is one third of the 12.7 per cent rise recorded in the preceding year. Within this sub-group, food grain prices rose by 5.6 per cent compared to a substantial rise of 8.6 per cent in the preceding year. Manufactured product prices increased by 4.8 per cent in 1995-96, less than half of last years 10.7 per cent. Prices of fuel, power, light and lubricants, which showed low will rise sharply in July 1996 as a result of the adjustment in administered prices of petrol, diesel, LPG [liquified petroleum gas], ATF [aviation turbine fuel] etc. By June 22, 1996 the annual growth rate of prices had declined to 3 per cent (provisional) for manufactured goods, but had accelerated to 6.3 per cent (provisional) for primary articles. The lower price increase in manufactures reflects the much smaller proportion of this sector still subject to import-export licensing and quantitative restrictions and underlines the inflation-controlling potential of a more liberal import policy. It should also be noted that the consumer price index (industrial workers) showed an increase of 8.9 per cent in 1995-96, implying an unusually wide divergence between the wholesale price index and the consumer price index.

Fiscal Developments

19. According to normal practice, the Economic Survey preceded the presentation of the Interim-Budget and accounts data for 1994-95 and revised estimates for 1995-96 are available only now for a reassessment of fiscal stabilisation. Over the past five regular budgets the fiscal deficit has declined as a proportion of GDP from 8.3 per cent in 1990-91 to a revised 5.9 per cent in 1995-96 (Table 5). Much of this decline occurred, however, in the first year. Since then the fiscal deficit has hovered around six per cent of GDP, except for 1993-94 when the fiscal deficit was 7.5 per cent. This borrowing represents the Central Governments draft on the savings available to the economy for productive investment. The 2.4 per cent reduction in the fiscal deficit has been brought about by a sharper 3.2 per cent reduction in the primary deficit (equal to fiscal deficit minus interest payments). The primary deficit represents the effort made by the Government to control the deficit, as interest payments are largely predetermined by past borrowing. Unfortunately, this reduction in the primary deficit has been partly offset by a 0.8 percentage point increase in interest payments as a proportion of GDP. This, in turn, is largely a legacy of preceding primary deficits accumulated as debt. The revenue deficit, on the other hand, has fallen only by 0.4 per cent of GDP over these five budgets, from 3.5 per cent of GDP to 3.1 per cent of GDP and remains too high for comfort.

Table-5 Deficits,Tax Revenue & Expenditure as percentage of GDP

	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96
	Actual	Actual	Actual	Actual	Actual	R.E.
1. Fiscal Deficit	8.3	5.9	5.7	7.5	6.1	5.9
2. Revenue Deficit	3.5	2.6	2.6	4.1	3.3	3.1
3. Budgetary Deficit	2.1	1.1	1.7	1.4	0.1	0.7
4. Primary Deficit	4.3	1.6	1.3	2.9	1.4	1.1
5. Gross Tax Revenue	10.8	10.9	10.6	9.5	9.8	10.1
of which,						
i) Income Tax	1.0	1.1	1.1	1.1	1.3	1.4

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	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96
ii) Corporation Tax	1.0	1.3	1.3	1.3	1.5	1.5
iii) Excise	4.6	4.6	4.4	4.0	3.9	3.8
iv) Customs	3.9	3.6	3.4	2.8	2.8	3.2
6. Total Expenditure	19.7	18.1	17.4	17.7	17.0	16.7
of which,						
i) Interest	4.0	4.3	4.4	4.6	4.7	4.8
ii) Subsidies	1.8	1.6	1.3	1.3	1.2	1.1
(Major)						
iii) Defence	2.9	2.7	2.5	2.7	2.5	2.5
iv) Other Non-Plan	5.7	4.5	4.0	3.6	3.7	3.9
Expenditure						
v) Budget Support	5.3	5.0	5.2	5.5	5.0	4.5
For Plan						

20. The revised estimates for 1995-96 confirm the success of the strategy of tax reform pursued in the last few years. Elements of the strategy include simple and more economically rational tax structures, lower rates, wider bases and more effective tax administration. Initially, as Table 5 shows, the ratio of gross tax revenues to GDP fell from 10.8 per cent in 1990-91 to 9.5 per cent in 1993-94, after which it recovered to 10.1 per cent in 1995-96 (RE). The recovery in tax revenue collections has been spearheaded by the outstanding performance of direct taxes which increased from 2.1 per cent of GDP in 1990-91 to 3 per cent in 1995-96 (RE), with their share in gross tax collections rising from 19 per cent in 1990-91 to 29 per cent in 1995-96. The average buoyancy of personal income taxes, as measured by the ratio of change in the tax revenue to change in GDP at current prices, has risen from an average of 1.1 in 1986/87-1990/91 to 1.5 during 1991/92-1995/96 (RE). Similarly, the buoyancy of corporate income tax revenues has risen from an average of 0.8 during 1986/87-1990/91 to 1.7 in 1991/92-1995/96 (RE). The increasing role of direct taxes and the reduction in dependence on customs duties (Table 5) has enhanced both the equity and efficiency of the tax system as direct taxes are generally favoured as more progressive and customs duties are viewed as trade-distorting.

Financial Developments

21. Banking and capital markets are areas in which reforms have continued in 1996 despite political uncertainty and change, reflecting one of the advantages of relatively autonomous regulators (RBI and SEBI [Securities and Exchange Board of India]). The RBI ushered in significant monetary policy changes and reforms in April and July 1996. Interest rates on domestic bank deposits above one year and on NRER [Non Resident External Rupee] deposits above two years have been de-controlled. The minimum maturity of bank time deposits has been reduced from 46 to 30 days. SLR on outstanding NRER deposits has been reduced from 30 per cent to 25 per cent. Banks are now required to mark to market 50 per cent of their investments in approved securities, up from 40 per cent earlier. The loan component of bank credit has been raised from 40 per cent to 60 per cent of maximum permissible bank finance (MPBF) for those with limits of Rs.20 crores or higher (the remaining 40 per cent stays on a cash-credit system). For those with MPBF limits of Rs.10 to 20 crores the loan component will be 40 per cent. Access to money market mutual funds (MMMFs) has been extended to corporates and others as in the case of other mutual funds. Six institutions have been given approval (effective 1st June, 1996) by RBI to become primary dealers in government securities. SEBI approved mutual funds dedicated to government securities will receive liquidity support from RBI up to 20 per cent of

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their investment. Selective credit controls have been relaxed on cotton and kapas, sugar, gur and khandsari in the context of abundant supply. Call money rates which had declined to around 11 per cent after the April, 1996 slack season credit policy, have declined further after the July policy announcements, suggesting an easing of short term liquidity. Forward exchange rates have mirrored this downtrend, reflecting improved expectations about the growth and stability of the economy and foreign exchange markets.

22. The pace of reform in the capital markets has also been maintained in 1996. The SEBI guidelines on primary issues of debt were modified to allow development finance institutions to utilise the funds raised even before the allotment/listing of the instruments. Eligibility norms were introduced to improve the quality of new issues. The track record for public issue of equity or convertible securities was, therefore, modified as follows: (a) a non-manufacturing company must have a three year dividend payment record; (b) a manufacturing company must either meet the dividend condition or have been appraised by a public financial institution/ SCB [Scheduled Commercial Banks] which also takes a 5 per cent share in loan or equity. Extensive reforms in regulations for mutual funds have been proposed in the form of a discussion paper which has been widely discussed and commented upon. Based on these discussions existing regulations will be amended and are likely to be issued shortly.

23. New guidelines were issued for Euro issues in June 1996, carrying forward the process of liberalisation. Banks, Financial Institutions and Non Banking Finance Companies registered with the RBI were permitted access to GDR markets. GDR issue proceeds were permitted to be deployed for investments in joint ventures and wholly-owned subsidiaries in India by parent companies, in addition to end uses earlier allowed. Use of GDR proceeds for investments in stock markets and real estate were expressly banned. The end use restrictions on proceeds of foreign currency convertible bonds (FCCBs) were also liberalized. Under the new guidelines there is no limit on the number of Euro issues a company or group may float. Furthermore, the three year track record requirement of good performance by the issuing company can now be relaxed for financing investments in infrastructure sectors, such as power generation, telecom, petroleum exploration and refining, ports, airports and roads.

Balance of Payments

24. As shown in Table 6, India's balance of payments has improved considerably since the crisis at the beginning of this decade, when the current account deficit had risen to an unsustainable level of nearly $10 billion (3.2 per cent of GDP) in 1990-91 and foreign currency reserves had fallen to barely two weeks worth of imports at one point in 1991. Highlights of improvements in the external payment situation include:

—Recovery of export growth from minus 1.1 per cent, in dollar terms, in 1991-92 to a positive growth in the range of 18 to 20 per cent in each of the last three financial years;

—Rise in the ratio of exports to imports to the range of 85 to 90 per cent in recent years as compared to only 60 per cent in the latter half of the 1980s;

—Significant decline in the current account deficit from over 3 per cent of GDP in 1990-91 to much more manageable levels since then;

—Rapid growth in annual foreign investment flows from less then $100 million in 1990-91 to the range of $4 to $5 billion in the last 3 years (1993-94, 1994-95 and 1995-96); and

—Recovery of foreign currency reserves from around $1 billion at one point in 1991 to over $20 billion by end March 1995, though followed by a decline to $17 billion by end March 1996. By July 12, 1996 reserves had risen to $17.7 billion.

25. Although export growth remained strong at 21 per cent, in dollar terms, in 1995-96, the balance of payments came under some pressure because of the continuing surge in import growth, higher debt service on external liabilities incurred in earlier years and a decline in net portfolio investments in the form of GDR issues. Non-oil imports (DGCI&S) increased by 30 per cent for the second year in a row, reflecting the strong boom in the industrial sector since 1994-95. In 1995-96 imports of capital goods increased by over 30 per cent and imports of raw materials and components grew by almost 30 per cent, accounting for most of the import growth.

26. The continued high growth of imports in 1995-96 led to a widening of trade and current account deficits and, together with developments on the capital account, resulted in use of foreign currency reserves of nearly $3 billion. (Over the year reserves declined by $3.8 billion after accounting for valuation changes). Furthermore, the pressure on the balance of payments was also manifested in the market determined exchange rate, with the nominal rupee dollar exchange rate depreciating from a monthly

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Table 6 Balance of Payments : Key Indicators (In US$ million)

	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96
	(P)	(P)	(P)	(Q.E.)	(Q.E.)	(Q.E.)
1	2	3	4	5	6	7
1. Exports	18477	18266	18869	22700	26857	32430
2. Imports	27914	21064	23237	23985	31672	39445
Of which: POL	6028	5364	6100	5650	5928	7156
3. Trade balance	-9437	-2798	-4368	-1285	-4815	-7015
4. Invisibles (net)	-243	1620	842	970	2191	1930
Non-factor services	979	1207	1128	777	-494	-68
Investment income	-3752	-3830	-3422	-4002	-3905	-4487
Pvt. transfers	2069	3783	2773	3825	6200	6150
Official Grants	461	460	363	370	390	335
5. Current Account Balance	-9680	-1178	-3526	-315	-2624	-5085
6. External assistance(net)	2210	3037	1859	1700	1250	996
7. Commercial borrowings (net) @	2249	1456	—358	1252	1029	82
8. IMF (net)	1214	786	1288	191	-1146	-1710
9. NRI deposits (net)	1536	290	2001	940	847	1365
10. Rupee debt service	-1193	-1240	-878	-745	-1050	-963
11. Foreign investment (net) of which:	68	154	585	4110	4895	4077
(i) DFI (net)	68	154	344	620	1314	1981
(ii) FIIs	0	0	1	1665	1503	1892
(iii) Euro equities & others	0	0	240	1460	2078	204
12. Other flows (net)+	2318	271	-243	1735	1556	-1681
13. Capital account total (net)	8402	4754	4254	9183	7381	2166
14. Reserve movement (-increase)	1278	-3576	-728	-8868	-4757	2919
Memo items:						
Export Growth (per cent)	9.0	-1.1	3.3	20.3	18.3	20.8
Import Growth (per cent)	14.4	-24.5	10.3	3.2	32.1	24.5
Export-GDP ratio (per cent)	6.2	7.3	7.8	8.9	8.9	10.0

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	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96
Import-GDP ratio (per cent)	9.4	8.3	9.8	9.4	10.4	12.2
Current account-GDP ratio (per cent)	-3.2	-0.4	-1.8	-0.1	-0.8	-1.6
Foreign Currency Assets ($million, end of period)	2236	5631	6434	15068	20809	17044
Total Debt Service Payments ($million)	8982	8250	7658	8347	10955	12625
Debt Service ratio (per cent)	35.3	30.2	28.6	25.2	26.6	26.4

(P): Preliminary Actuals; Q.E. Quick estimates
@ Figures include receipt on account of India Development Bonds in 1991-92 and related repayments, if any, in the subsequent years.
+ Include, among others, delayed exports receipts and errors & omissions.
For 1992-93, it includes errors & omissions arising from dual exchange rates applicable under the Liberalised Exchange Rate Management System.

Average of Rs.31.4 per dollar in July 1995 to Rs.34.4 per dollar in March 1996. There were pronounced bouts of volatility in the foreign exchange market in September-October 1995 and again in January-February 1996. However, following the announcement of corrective measures by the Reserve Bank of India, the foreign exchange market stabilized at around Rs.35 per dollar up to the end of June 1996. It may be noted that with the rupee-dollar exchange rate ruling at around Rs.35.5 per dollar in the second week of July 1996 the rupee still remained appreciated in real effective exchange rate terms (with respect to India's major trading partners and after allowing for higher rates of inflation in India) by about 5 per cent as compared to March 1993 and by about 1 per cent as compared to the average for 1993-94.

27. During the first two months of 1996-97, the DGCI&S data on foreign trade indicate a significant slowing in the growth of both exports and imports. Export growth has slowed to 14.4 per cent, in dollar terms, over the first two months of 1995-96. Import growth has slowed to 23.4 per cent, with non-oil import growth slowing sharply to only 17.2 per cent and oil import growth rising dramatically to nearly 48 per cent in dollar terms. Even allowing for some special short term factors and bunching of oil import payments, it is quite clear that such high growth of the oil import bill could easily place unsustainable pressure on the balance of payments. Recent adjustments in petroleum product prices should help relieve some pressure.

28. To ease Indian industrys access to external funds the Government issued the guidelines for external commercial borrowing in June 1996 by permitting preferential access to development finance institutions, infrastructure sectors and exporters. These measures complement the liberalization of guidelines for Euro issues noted earlier. In addition, the policy stance towards foreign direct investment has also been clarified and strengthened with the restructuring of the Foreign Investment Promotion Board and the decision to establish a Foreign Investment Promotion Council.

Some Issues and Priorities

29. The economic reforms of the past five years have brought about a strong recovery in the growth of production and employment, restored the health of our external sector and ushered in far-reaching changes in agriculture, industry, the financial sector, capital markets and the tax structure. But a great deal more remains to be done. The Economic Survey, 1995-96 and its two predecessors have clearly outlined the issues and policy priorities confronting the Indian economy. In this brief Update the key challenges and issues are reemphasized.

The Fiscal Challenge

30. The central challenge facing the government is how to contain the net borrowing requirements of the Central Government, in other words, the fiscal deficit. Past experience has driven home the perils of a high fiscal deficit. Basically, the government's net borrowing requirements (that is, the excess of its expenditures, including net lending, over its non-debt receipts) can be financed from three broad sources:

—borrowing from the RBI which is tantamount to printing money;

—borrowing from non-RBI domestic sources such as banks, other financial institutions and individuals; and

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—borrowing from foreign sources such as donor governments and multilateral institutions.

31. Excess borrowing from any of these sources leads to serious economic problems. Too much borrowing from RBI leads to excessive growth of money supply which, in turn, induces high inflation and downward pressure on foreign exchange reserves and the rupees exchange rate. Too much borrowing from non-RBI domestic sources drives up interest rates and soaks up investible funds which would have otherwise financed production and investment in industry, agriculture, infrastructure and other sectors; thus growth of output and employment are reduced. Too much borrowing from foreign sources adds to external indebtedness and heightens the risk of the kind of external payments problem which plunged the economy into crisis in 1991. Furthermore, excessive borrowing from all sources, taken together, leads to rising interest payments on governments liabilities, reduces spending available for priority social and infrastructure programmes and feeds the need for higher levels of borrowing in future.

32. The rising interest burden could reach an unsustainable level unless efforts are made to contain it through reduction of the fiscal deficit and retirement of a part of the debt. As a proportion of the revenue receipts, interest payments rose from 39 per cent in 1990-91 to 47 per cent in 1995-96. The high growth of revenue expenditure also throws up another challenge. Less money is available for capital expenditure or investment. While the share of revenue expenditure in total Central Government expenditure has increased from 69.8 per cent in 1990-91 to 78.4 per cent in 1995-96, that of capital expenditure has fallen from 30.2 per cent to 21.6 per cent.

33. In every economy there will be subsidies, some visible, some hidden. This will be particularly so in a country where there are a large number of poor people and some goods and services flowing to the poor have to be subsidised. Nevertheless, subsidies must be closely targeted, periodically scrutinised and kept under tight control. The level of major subsidies (mostly in food and fertilizers) increased from Rs.9793 crores in 1991-92 to Rs.12,550 crores in 1995-96.

34. Quite clearly, if we are to successfully pursue the goals of high economic growth, social justice, self-reliance and price stability then every effort must be made to contain the governments fiscal deficit to manageable levels. This essentially involves: raising current revenues through good tax policies, appropriate user charges for services provided by government and public agencies and adequate dividends from government equity in public enterprises; a transparent and well-designed programme of public sector disinvestment; and tight curbs on growth of non-essential or low-priority government expenditures. If we cannot do this we cannot aspire to high growth of employment, quick reduction of poverty, low inflation and a viable external sector.

35. Measures to contain and reduce the fiscal deficit will also promote public savings and, hence, overall domestic savings necessary to sustain high levels of national investment and growth. As the Economic Survey 1995-96 has pointed out our private saving rates have been comparable to those of high performing East Asian economies. But our record of public savings has been much poorer and needs to be drastically improved. Basically, this involves reduction in revenue deficits of Central and State governments and much better financial performance of public sector enterprises which have been built with huge amounts of public investment.

The Infrastructure Challenge

36. An equally demanding challenge to India's economic development is how to provide adequate and reliable economic infrastructure services at reasonable cost and with sustainable financing and pricing policies. It must be emphasized that unless there are major improvements in this area, the momentum of growth in industry, agriculture and exports can be lost. It is no exaggeration to say that the prospects for India's social and economic development depend crucially on the performance of infrastructure sectors, such as power, roads, railways, ports, irrigation and telecommunications.

37. Bringing about the necessary improvements will entail a paradigm shift from the old public monopoly approach to one in which private providers of infrastructure services are also actively encouraged. A significant start has already been made in encouraging private providers in power, telecommunications, civil aviation, ports and roads. However much remains to be done to develop and implement viable policy frameworks and institutional structures. Independent regulatory authorities have to be established to set appropriate rates, harmonize design standards and specifications and generally promote the public interest. Transparent and workable rules and procedures for private investment and operation have to be clearly set out in each infrastructure sector. Since government-owned entities will continue to be important providers of services in most infrastructure sectors, far-reaching reforms will have to be undertaken to increase the operational efficiency and accountability of these entities and ensure application of commercial principles in their operation and financial management, including tariff policies. In many cases, major institutional reforms will also be necessary.

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38. Cost-effective expansion of infrastructure sectors will require massive amounts of long-term finance. This, in turn, will require reforms of insurance and provident fund sectors and suitable policies for rapid and healthy development of markets for long-term bonds. There is also enormous scope for attracting foreign direct investment in infrastructure sectors.

Employment and Poverty Alleviation

39. Decades of development experience from dozens of other countries confirms our own experience that rapid, broad-based, labour-intensive growth is the surest route to alleviating poverty and giving dignity and voice to the poor. To achieve this kind of growth we need to promote high levels of domestic savings, encourage their allocation to the most productive uses through well developed financial and capital markets, ensure that our foreign trade policy promotes rapid growth of labour-intensive activities and exports in all sectors, (manufacturing, agriculture and services), reduce monopolistic elements in all markets and provide efficient infrastructure and other supporting services to all economic units, especially small scale manufacturers and small holder cultivators.

40. In addition to implementing policies for promoting employment-intensive growth, the government should strengthen programmes for primary education, primary health care, safe drinking water, housing, rural roads, public distribution system and other social services so that they are fully effective in benefitting the poorest segments of society. Such programmes for building the capacities and skills of the poor constitute effective ways of lifting them from poverty. Furthermore, existing special programmes for employment generation and poverty alleviation need to be strengthened and revamped to increase their effectiveness and reduce waste and leakages. Strong government support, financial and administrative, for these programmes is substantially dependent on maintaining rapid and sustained economic growth, which alone can yield the fiscal resources necessary for social and anti-poverty programmes.

41. With two-thirds of India's labour employed in agriculture, successive Economic Surveys have emphasized the crucial importance of broad-based agricultural growth in raising rural living standards, ensuring basic food security for the nation and strengthening the domestic market for industrial and service sectors. Above all, broad-based agricultural growth offers enormous opportunities for alleviating rural poverty through expansion of on-farm and off-farm employment. To succeed in this endeavour public policies for agriculture must continue to reduce the bias against agriculture in the overall incentive framework through reduction of protection to industry and other means, strengthen social and economic infrastructure in rural areas, revamp rural credit delivery systems and find ways to spur quick completion of ongoing irrigation projects. Irrigation and sound water-management practices will become increasingly important to the health of the rural economy as the demand for water outstrips supply. Provision and maintenance of irrigation services must be more responsive to the needs of farmers, especially small holders. At the same time beneficiary farmers must be willing to bear a reasonable proportion of the cost of irrigation services.

42. The search for strategies to accelerate the growth of employment and the rate of poverty reduction must accord due importance to the services sector. All over the world the services sector has become a dominant source of new jobs for both skilled and unskilled labour. We must review and reform policies which today hinder the expansion of job opportunities in key sectors such as construction, retail trade, tourism and a wide range of maintenance services.

43. India's economic development must harness the opportunities provided by international trade, modern technology and world capital markets. China has shown how $30-$40 billion a year of foreign investment can be effectively harnessed for economic development without compromising sovereignty and national interest. We must swiftly reform our policies to give effect to the goal of attracting $10 billion of foreign direct investment in a year. At the same time we must remember that foreign investment, like all other capital inflows, has to be serviced. And this will require continued strong growth in our exports of goods and services. In the final analysis, policies which ensure sustained and rapid growth of our exports constitute the best guarantee of our self-reliance and the viability of our external sector.

44. To sum up, the potential for sustaining and even improving on the rapid growth of the last two years exists. But to convert this potential into reality we must pursue policies which ensure higher savings and investment, reduction in fiscal deficits at both Central and State levels of government, a sharp increase in investment in and productivity of key infrastructure sectors such as power and a sustained and rapid growth of exports.

India: Communist Parties Criticize Government's Economic Survey

BK2107080196 Delhi All India Radio Network in English 1530 GMT 20 Jul 96

[FBIS Transcribed Text] The CPI-M [Communist Party of India-Marxist] has criticized the updated economic

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survey presented by the government yesterday saying that it is a defense of the Narasimha Rao government's economic reforms. In a press statement in New Delhi today, the central committee of the party said the United Front government through the survey indicates that it intends to accelerate these reforms instead of reversing their adverse impact on the majority of the people. The statement said that the survey itself revealed serious imbalances that these reforms had created in various sectors of the economy.

The CPI [Communist Party of India] deputy general secretary, Mr. A.B. Bardhan, said the updated survey had sought to further project the rosy picture painted by the former finance minister, Dr. Manmohan Singh, about the Indian economy.

Iran

Iran: Radio Denies Israeli Pilot Arad Detained in Iran

NC2207193496 Tehran Voice of the Islamic Republic of Iran in Arabic 1730 GMT 22 Jul 96

[FBIS Translated Text] Cologne radio said that Schmidbauer, coordinater of the German intelligence operations, claimed on Sunday [21 July] that Zionist co-pilot Ron Arad is likely to be alive and detained in Iran. As a matter of fact, the German official's allegations, as usual, came in line with the requirements of Zionist policy and motives. It is well known that Arad might have been killed when his military aircraft was hit in Lebanon in 1986. However, since the Zionist entity exploits any incident and pretext to arouse world public opinion against Iran, it exploits the crash of that aircraft to launch a large-scale media campaign against Iran with the claim that Arad is detained here.

The allegations of the German intelligence official are based on the Zionist trumpets' lies. Anyway, repetition of these allegations comes at a time when news agencies are highlighting reports on the exchange of POW's between Hizballah and the Zionist entity and the return of the bodies of two Zionist soldiers killed during the Zionist aggression against Lebanon in 1985.

The Islamic Republic of Iran has repeatedly confirmed that coordination among the pro-Zionist Western media in leaking fabricated news will only expose these organs and shake public confidence in them.

Iran: Verdicts Issued in 'Sabotage and Espionage' Cases

LD2307110796 Tehran Voice of the Islamic Republic of Iran First Program Network in Persian 0930 GMT 23 Jul 96

[FBIS Translated Text] Final verdicts were announced by Islamic revolution courts this morning on the agents belonging to a network carrying out economic sabotage and espionage for foreigners during the [Iran-Iraq] war. Our correspondent reports:

[Unidentified correspondent] According to the verdict, the accused numbers one to three, Hedayatollah Zendehdel [known as the head of the network], Abolqasem Majd Ab-Kahi, and Ali Reza Yazdan-Shenas have been declared to be the corrupt on earth [Koranic expression] and sentenced to 170 lashes and execution on charges of establishing a financial corruption network; taking part in embezzlement, fraud and stealing from the public purse; obtaining huge loans from banks by establishing dozens of fake, front companies; assisting the illegal departure of people from the country by forging government documents; assisting the transfer of classified military information; and dozens of other crimes.

The head of the Islamic revolution courts also announced the verdicts issued on the accused numbers four to six as follows:

Ali Sadafian, charged with belonging to the so-called Zendehdel network; selling war information and news to foreigners; illegal links [ertebat-e namashru']; holding (?entertainment) meetings; and forging government documents, has been sentenced to 23 years in prison and 200 lashes, in addition to joint liability for making good the losses inflicted.

The accused number five: Abdolghafur Sartipi, charged with taking part in economic abuse; cooperating with the leaders of the oppressive regime of the shah; obtaining huge loans in an illegal way during that regime; and carrying out projects beyond the tenders [as heard], has been sentenced to seven years in prison.

The accused number six: Fereydun Abuziya, charged with taking part in the embezzlement network; receiving bribes; fraud and financial corruption; handing over classified military information to foreigners; and using narcotic substances, has been sentenced to 10 years in prison and 110 lashes, in addition to joint liability for making good the losses inflicted.

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Iran: Turkish Raid Said Attempt To Mar Erbakan's Ties With Iran

NC2107145096 Mashhad KHORASAN in Persian 13 Jul 96 pp 1, 11

[Unattributed commentary: "Erbakan's Difficult Road"]

[FBIS Translated Text] Finally, after 72 years, an Islamic government has come to power in Turkey. The Turkish parliament's vote of confidence in Necmettin Erbakan, leader of the Islamic Welfare Party, and the formation of a coalition government with Tansu Ciller, leader of the True Path Party, was undoubtedly the most major political incident in the contemporary history of Turkey.

Seventy-two years of secular rule in Turkey, the great strength of the military and of big capitalists, unsparing support from America, Europe, and Israel for the secular government are all among the factors that make the coming to power of an Islamic government so surprising. Turkey is a country of special importance—both historically and strategically—and, apart from its membership in NATO and being situated in the West's security zone, it is also a neighbor of the Islamic Republic of Iran and has interests in the Middle East peace issue and in Central Asian developments. Therefore, giving in to the formation of a coalition government headed by an Islamic Party is proof that they had no other choice but to accept the current situation in order to avoid complicated problems in the future.

After the Welfare Party's spectacular victory in last year's elections and until two weeks ago many efforts were made to prevent an Islamic government from coming to power. Coalition governments failed one after the other. Meanwhile, a military coup—which would not have been so difficult for the secularists and the army—could have only aggravated Turkey's problems and pushed the country in a direction with no chance of return.

The Turkish nation has chosen its path. The Welfare Party emerged as the strongest party with the votes that it received and showed that it was the most capable faction to form a government— something that ultimately did happen.

Now the Western world is facing several questions. What should be done if Erbakan wants to implement his Islamic ideals? Although Europe, America, and Israel have hastily tried to portray Erbakan's coming to power as an extremely ordinary issue and have expressed their readiness to cooperate with him, many experts and high-ranking officials in the West do not hide the fact that Erbakan's premiership can seriously alter the Middle East peace process and, that by expanding relations with Iran and other Islamic countries, it can upset the existing political-economic equations in the region, which are currently favored by the West.

This is a nightmare that has already disturbed the sleep of the Westerners and of the secularists.

The secularist CUMHURIYET newspaper wrote: They have surrendered Turkey to Erbakan. The leftist newspaper URNASL [as published] wrote that the government received a vote of confidence from parliament by force in order to cover up the financial scandals of Ciller and Erbakan. Zionist Prime Minister Netanyahu also said: We don't think that Erbakan's premiership will upset the existing equations in the Middle East! Although the Clinton administration is unhappy that an Islamic government has come to power in Turkey because of Washington's increasing political, economic, and military influence on the Ankara government, it is trying to adapt to the current conditions. This is occurring at a time when the American press does not rule out the possibility of an attack, similar to the one in Dhahran, on Incirlik airbase, hence the statement by Nicholas Burns, spokesman for the American Department of State, that extensive security measures have been adopted at this base.

Referring to the recent pact between Turkey and Israel on strategic cooperation, the NEW YORK TIMES foresees that Erbakan will incline toward support for the Arabs in the Arab-Israeli dispute and that he will also adopt a softer stand on Iraq. The raid by Turkish helicopters on Iranian territory two weeks ago can be assessed within this context because the military and the secularists are trying to do everything they can to mar relations between Erbakan and Iran. Meanwhile, Erbakan is facing an immense economic problem at home, only one part of which is Turkey's $77-billion foreign debt, which carries an annual interest of $10 billion. The future will show whether the leader of the Islamist Welfare Party will be able to solve these problems and fulfill its aspirations or if the secularists, the West, and the military will continue to obstruct this effort.

Iran: Turkish Raid, Cultural 'Onslaught', Spread of Drugs Viewed

NC2107154896 Tehran SALAM in Persian 4 Jul 96 p 3

[From the "Hello SALAM" column]

[FBIS Translated Excerpt] [Unidentified reader] Last year Turkish planes committed aggression against residential areas on the Iranian border and it was decided

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that they should pay compensation for this. But nothing happened! Some time ago a Turkish diplomat killed a mother and her daughter in a car accident and fled, and the case was closed! Again, some time ago several members of the Turkish Embassy were identified as spies, but nothing was done against them! And now, too, Turkish helicopters have killed a number of our defenseless compatriots. Again it seems that nothing is being done about this!! Does the government have the power to do something only against men who are wearing short-sleeved shirts and women whose hair is visible from under their head scarves?!

[Unidentified reader] This is the second time that Turkey has repeated its aggression against Iran. Why doesn't Iran give a decisive answer? I don't think that with the experience that we have gained after eight years of war we should fear Turkey! Why should they so unjustly kill our compatriots while the country's officials only suffice to summon their ambassador? If Turkey had committed an aggression against another country and killed the people there in such a manner, would they have let this incident pass so lightly?!

[SALAM] Problems such as this between neighbors should be very cautiously assessed and cautious stands should be adopted. We should not give in to feelings. But all of us agree that our approach toward Turkey should be such as to make them understand whom they are dealing with.

[Unidentified reader] I have read the interior minister's comments on the Turkish aggression in the newspaper, and I came to realize the extent to which the country's officials attach importance to the people. In other words, will the issue be solved with a mere apology and the paying of compensation—that is, by trampling on the blood shed by the victims of this incident?

[SALAM] Sometimes such incidents do take place between neighbors, and especially in border areas. But they should be solved in such a way as to avoid serious disputes. For example, what will happen if—in the near or distant future—Iranian helicopters commit such a mistake and shell some Turkish villages? Therefore, a reciprocal solution should be found. But the question is: Why do the Turkish helicopters and planes always commit such mistakes and why don't the Iranian helicopters and planes do so even once?! At any rate, the Turkish side should be told that we never make such mistakes while Turkey always does.

[Unidentified reader] I would like to ask Mr. Larijani how successful he has been in his efforts so far. In view of the two major missions placed before the Voice and Vision of the Islamic Republic of Iran—one that it will be impartial in political affairs and the other that it will broadcast interesting programs in order to stop the West's cultural and satellite onslaught—unfortunately not only did it not act impartially in the recent elections, but it is also broadcasting boring re-runs. Thus it has failed in both missions!

[Unidentified reader] Unfortunately drug abuse has increased during the past few years, so much so that the buying and selling of drugs is done almost in the open. Why aren't drug enforcement laws decisively implemented and why should we hear news on the fight against drugs only during the week marking the Judiciary Branch and at no other time? [passage omitted]

Iran: Prosecutor General Explains New Islamic Penal Code

LD2107200396 Tehran Voice of the Islamic Republic of Iran First Program Network in Persian 1630 GMT 21 Jul 96

[FBIS Translated Text] Prosecutor General Ayatollah Morteza Moqtada'i has said that the benefits of the new Islamic Penal Code will guarantee fully the country's security.

In an interview with a Central News Unit correspondent, the prosecutor general mentioned the specifications of the new Islamic Penal Code and its role in guaranteeing the country's security. He added: On the basis of the law, paying or receiving usury [reba] is considered a serious crime. This applies also to the person arranging the deal. The offenders will receive between six months to three years sentence, in addition to 74 lashes. The person who receives usury must pay a fine equivalent to the amount of usury. The court is duty-bound to impose all punishments.

He referred to the issue of theft and explained the appropriate punishment considered for it. He added that specific punishment has been anticipated for each case of theft. A thief, under specific circumstances, will be sentenced to up to 20 years' imprisonment in addition to receiving 74 lashes.

According to the new law, the punishment for banditry and highway robbery — if it does not come under the category of mohareb [the one who wages war against God] — will be between three to 15 years' imprisonment and up to 74 lashes. Punishment for unauthorized use of water and electricity, telephone and gas — if connections are not done by legal means — will be up to three years' imprisonment.

He referred to carelessness by the drivers of vehicles, and said if they commit an unpremeditated killing they

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will be sentenced between six months' and three years' imprisonment and the payment of blood money.

Iran: Commentary Supports 'Thaw' in Iranian-Egyptian Relations

NC2107121796 Mashhad KHORASAN in Persian 11 Jul 96 p 13

[Unattributed commentary: "Egypt and Iran"]

[FBIS Translated Text] Egyptian Foreign Minister 'Amr Musa has said: "Enmity with Iran is not to the benefit of the Arabs."

This comment was made at a time when, according to political circles, great efforts are underway to normalize relations between Iran and Egypt. Syrian Foreign Minister Faruq al-Shar', who visited Iran and Egypt recently, is considered a mediator for improving the two countries' relations. After meeting with Egyptian President Husni Mubarak, he said that the conclusion reached after the talks was that there is common interest in improving relations and ending misunderstandings, especially between Iran and Egypt. The truth is that regional Arabs have always fanned the flames of tension in the region, under the influence of America's propaganda and political- psychological pressures. The baseless allegations by the United Arab Emirates on its sovereignty over three Iranian islands, and the Bahraini regime's claims on Iran's involvement in the recent unrest in that country are among such examples.

However, these shaykhdoms know better than anyone else that Iran has never been a warmonger and that it has always wanted to ensure security and to establish peace, stability, and tranquility in the sensitive Persian Gulf and Middle East areas.

If we take economic and commercial issues into consideration, the Arabs' interests dictate that they have peaceful relations with Iran. Moreover, common religious, cultural, racial, and historic interests create a bond among regional nations.

Experience has shown that the starting point for the instigation of Arabs against Iran has always been in Washington or London, because they always benefit the most from differences between Iran and the Arabs.

Nevertheless, the Islamic Republic of Iran has always called on its neighbors for friendly dialogue and refraining from tension. And this is something that all regional statesmen admit.

The statement by the Egyptian foreign minister is a re-emphasis of this—a re-emphasis which can thaw the ice in Iranian-Egyptian relations and open up a brighter horizon for both.

Iran: Commentary on Popular Dissatisaction in Arab Countries

LD2107162096 Tehran JOMHURI-YE ESLAMI in Persian 17 Jul 96 p 14

[Unattributed commentary: "The Roots of the Dhahran Incident are Within Saudi Arabia itself"]

[FBIS Translated Text] These days, one can find many articles or reports on Western mass media and, especially, in British and French newspapers and magazines, in which the existence of deep popular dissatisfaction in [Saudi] Arabia has been stressed as the main factor behind the bomb explosion at a building housing American military personnel and behind similar incidents. The latest such article can be found in the weekly MIDDLE EAST TIMES. The article states in part:

"... Arabs are beginning to feel that they are being exploited in a terrible way. They see a lack of progress in the peace process... They see that corrupt regimes, which are on good terms with the West, are drowning themselves in Western lifestyles, whereas the needs of the people are overlooked. They see clearly that the only value for the West is cheap oil. They understand that their security depends on the freedom of action of infidels who only have respect for their own culture or religion..." The weekly MIDDLE EAST TIMES continues: These feelings will intensify and one of the reasons for this is that throughout the Arab countries of the Persian Gulf there is a youthful population that grows increasingly restless, because they suffer from unemployment or poverty.

The writer concludes his article by saying: "And the main problem is none other than the growing hatred felt by Arabs and, especially, of Arabs in the Persian Gulf for the West..." [all ellipses as published]

This article and other similar articles, which can be found in large numbers, in recent days, in the Western press and in their mass media, reveal a fundamental truth: The main roots of the crisis, not only in Arabia, but also in the shaykhdoms of the southern coast of the Persian Gulf must be sought in the unsatisfactory conditions inside those countries and the ever- growing popular dissatisfaction, dissatisfaction that has its roots in the behavior and performance of the ruling regimes, in social, cultural, judicial, and economic fields, against these countries' societies.

The massive flow of Arabian petrodollars into American banks and the arrival of sophisticated weaponry, along with tens of thousands of drunk and decadent American soldiers, in Arabia, which holds some of the most holy places for the Muslims of the world, are not developments that the people of Arabia can view with

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pleasure — people who often suffer from poverty themselves or are unsure where their daily bread will come from. The absence of law and a parliament, and the rule of an aristocratic minority, detached from the nation, over each of the Arab shaykhdoms of the Persian Gulf are bitter realities that have been upsetting the societies of these countries and have turned the social and cultural values and dignity of the people into playthings.

These are the real roots of the hidden tension in the Arab societies of the region. The people and religious groups have on numerous occasions expressed their protest and opposition to the continuation of such a state of affairs. When this opposition meets with the indifference of the ruling shaykhs, it manifests itself in the form of violence, bombings, martyrdom-seeking operations, and uncontrolled popular rage, and, in the middle of all this, those whom the people have the strongest motivation to destroy, including American soldiers, become the main targets.

A nation is undeniably entitled to defend its rights in any way it deems appropriate and to attack the agents behind the violation of its rights. Any nation determines its own life on the basis of its own political, social,and economic circumstances, and it thereby shapes its general behavior toward friends and enemies. However, today, not only the people of Arabia, but many nations of the world feel the claws of the Americans digging into their lives and they wish to stand up to this attack in any way possible. This reaction is not, by any means, unnatural.

Thus, the American and Saudi officials, who have set rewards for finding the perpetrators of the Dhahran incident, might as well distribute these rewards among themselves, because they are themselves the reasons behind and the causes of this incident and other similar incidents inside and outside [Saudi] Arabia.

Iran: ABRAR Views Conflict in Northern Ireland

LD2007175196 Tehran ABRAR in Persian 16 Jul 96 p 12

[Article by A. Niamanesh from the column: "A Glance: Crisis in Northern Ireland"]

[FBIS Translated Text] After the agreement between the Belfast authorities and the British security forces in Northern Ireland concerning the Orangemen's march through the Catholic areas, Belfast and Londonderry turned into scenes of fighting between the two Christian factions, Protestant and Catholic. During the clashes, described as intense, three police officers were shot and wounded and a number of security forces' vehicles were set on fire.

To evaluate Northern Ireland developments, a combination of earlier events in the area from a few days and even a few weeks before should be viewed from a wider perspective. From that perspective, the current crisis in Northern Ireland must not be considered unrelated to the peace talks and the IRA's rejection of declaring a cease-fire.

Because of being left out of the peace talks by London, the IRA widened the circle of its activities and threatened British interests, to the point that the country's military base in Germany became a target of bombing.

On the other hand, Gerry Adams, leader of Sinn Fein (the political wing of the IRA), who used to make efforts to establish a cease-fire, also announced that because of a lack of trust in British goodwill in beginning direct negotiations with Sinn Fein, the IRA will not renew the cease-fire.

These developments came about under conditions where the peace talks, mediated by a third country (America), were under way after 75 years. Meanwhile London, to demonstrate its good will, embarked on withdrawing its military forces from Northern Ireland in two stages. But it has now deployed even more of the same forces in that republic [as published] that had earlier been withdrawn.

Thus, it must be said that London has been successful in its policy to put the breakdown of the talks at the IRA's door. In particular, Sinn Fein's support for the IRA — aimed at eliminating grounds for disagreement and rift between Republicans — presented the initiative to London.

That notwithstanding, the imbalance of the Northern Ireland equations assisted Britain in seizing the initiative from Washington for an indefinite period, the initiative which America acquired with its mediation. Parallel to this, Sinn Fein, which is accused of sabotage and obstructionism regarding the negotiations, will be put under severe pressure by the White House, in particular by those who maintain its financial resources.

Thus it can be said that London, to pursue its interests and objectives — referred to earlier — allowed Orangemen to march through a Catholic area, something which could not but result in violence and clashes. With that act, London, beside influencing the peace talks and strengthening its presence in Ireland, tried to show that the Irish establishments are not capable of taking on the responsibility of political sovereignty in Northern Ireland because of their factional conflicts and that democracy in that republic [as published] will be defective.

That cautious policy by London will continue with the British elections next year. Along that route it is assured

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of pressure from public opinion and IRA supporters to extend that organization's violence.

Iran: GOZARESH on Role of Intellectuals

96LA0222C Tehran GOZARESH in Persian No 58, Nov-Dec 95 p 7

[Article by Mohsen Farshad: "Intellectuals: Feet on the Ground, Heads in the Clouds"]

[FBIS Translated Text] When the word "intellectual" comes to mind, one automatically envisions a logical dialectical system.

"Intellectual" makes us think of someone whose thinking, ideas, his entire world view and psychological structure are clear, luminous, white and full of clarity. This image is a thesis. It is a thesis whose antithesis is darkness, blackness and oppressiveness. It is from this second idea of "darkness" that we can conclude that the thesis is the true image of the intellectual, thought and intellectualism.

When we say "intellectual," we think of a person whose horizons and thoughts are as clear as day. They shine, their shining is like the sun, they are as white as all the purity and sincerity of the history of mankind. It is beauty, lightness, luminosity and celestiality. As for the opposite, meaning the anti-intellectual, his thinking, his words and his actions are dark, black, filthy, ugly, heavy and non-celestial. In the old philosophy what was pure, transcendent, beauty, complete, without defect, full of light and life-giving was celestial, and what was unclean, barren, ugly, defective, oppressive, deathly and heavy was seen as earthly, of the soil and non-celestial. For this reason, with respect to the four elements of water, fire, air and earth, which was defective and earthly, they believed in a fifth element called ether, which was perfect, celestial and eternal.

If we think of intellectualism in the dialectic sense, we mean that perfection, immortality, everlastingness, and non-earthly quality.

However, such an idea is a kind of metaphysical interpretation, using the dialectical approach to the intellectual and intellectualism. To get beyond this concept, it would be better first of all to define this term, then on the one hand to evaluate intellectuals in history and on the other to understand the intellectual world view through evaluation, in order make it easier to understand intellectualism in metaphysical concepts.

1. Definition of the term: The term *rowshanfekr* is apparently a translation of the French "intellectuel" and the English "intellectual."

During the Naser ol-Din Shah era and especially at the time the Freemasons appeared in Iran, they called the Freemasons and the advocates of the new civilization and the West the intellectuals, and Mirza Malkum Khan's role in this was not without importance.

In that period, there was a direct relationship in Iran between intellectualism and the destruction of tradition, the demand for renewal and the spread of Western civilization. The term "intellectual" was applied mainly to those who had been to Europe and had completed their university training in the West, or to those who associated their own ideas with advocacy of Western civilization.

The definition of the term "intellectual" in various dictionaries can help us understand its meaning.

The French *Larousse* dictionary writes: The intellectual is someone who either by taste or occupation works on intellectual matters. The French *Robert* dictionary gives about the same definition.

The *Oxford University* English dictionary writes: An intellectual is someone who has intellectual power and good insight or who displays them.

The English *College* dictionary gives many definitions, one of which is that the intellectual is someone who is employed with the work of thought; or, the intellectual is someone who relies more on ideas than on feelings and emotions.

None of the definitions in the English and French dictionaries is adequate. The Persian translators have used words such as *andishmand, kheradmand, bahush, motafekr, farzaneh, rowshanfekr, 'aqli* and *ma'ni* for the term *intellectuel*, and unfortunately they have created confusion about the meaning. One specific word cannot be used as an equivalent; it depends on the writer's intention and the context.

Apparently words such as *nakhbeh, farhikhteh* and *farzaneh* are closer to the term "intellectual" than the others.

The Mo'in Persian dictionary writes: The intellectual is a person who has clear ideas, or someone who views things with an open and fresh perspective.

This definition also, like the ones in the European dictionaries, as the logicians say, covers usage but not scope. A perfect definition covers complete scope. In a perfect definition, the essence and truth of the thing being defined must be clarified convincingly. However, in none of the above definitions do we encounter complete scope. To find the perfect definition of the intellectual, we must turn to history's wise men and

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conquerors of the peaks of human reason. Perhaps with a brief review of their intellectual activities we will be obtain a perfect definition, or a definition with complete scope.

2. The intellectual in history: Hegel says that the human being makes history and that history makes the human being. Does every human being make history? When a human being looks at the movement of history, meaning the course of social, political and human events in history, he sees that the intellectuals make history, or at least play a significant role in making it. When intellectuals build the great edifice of knowledge, philosophy and art, they are also contributing to the evolution of human beings themselves, presenting the great ones of knowledge, philosophy and art to the world of humanity. Thus, were it not for the intellectuals, meaning those with high and exalted ideas and thinking, the history of mankind would be nothing but a record of mass barbarism, savagery, slaughter and plunder. The intellectuals have given humanity civilization, culture, law, art and creativity.

The first person whose name shines in the history of humanity with respect to this is Hermes. He is a mythological character, and it is well-known that he taught humanity writing, music and the cultivation of wheat. Thus he was the person who taught humanity writing, art and agriculture, and pulled humanity from the depths of the cave-dwelling and ignorance of history and gave him new activities. Thus the intellectual must be someone whose thoughts change ignorance and darkness to knowledge and clarity. Then we come to the sacred Zarathustra, the prophet of ancient Iran. The Gathas are among the oldest religious and philosophical anthems in the world. In the era of barbarism, an era when human beings were still in their infancy intellectually, the Gathas illuminated the dark souls of ancient humanity. In Paragraph 3 of the Gathas he says: At the beginning of creation two twin heavens appeared, and now it is those two heavens that are made apparent as good and bad in thought, speech and action. Of those two, the one who knows chooses truth.

The two heavens appear as good and bad, truth and lies, cleanliness and filth, brightness and darkness, knowledge and ignorance, light and oppression, and they make being in contrast to the basic creator, just as in the natural and physical sense the positive and negative electrons, meaning the electron and the proton, together make the building block of the world. During that era when there was neither civilization and culture nor morality and humanity and cannibalism was practiced in some tribes, Zarathustra, with his message of thinking good, speaking good and doing good, brought light into his environment and gave movement to suffocated beings. On the other side of the world Buddha also shook the human psyche, thereby bringing about a revolution. University education is not the only criterion for intellectualism. Intellectualism has a mission and a social and a human commitment. It must shake its environment and history like an earthquake.

This is the very thing that the prophets succeeded in doing.

Moses attacked Pharaoh, Jesus prevailed over the Roman Empire, and the Prophet of Islam (peace be upon him) brought an important part of the world under his ideology.

The actions of the prophets were like earthquakes and storms which suddenly destroyed the traditions, laws, customs and idols of the people of the past and started a new system, new laws and a new generation. The prophets did not merely address the geniuses. Their revolutions also directly targeted the masses, but what did their heirs do with those great stormy movements?

Religion of Knowledge Instead of Religion of Reality

The inquisition of the Middle Ages came down on the philosophers and scholars like a volcano and took the breath out of the intellectuals and thinkers.

Galileo was tried and convicted for expressing an opinion about the rotating and orbiting of the earth and discovering the moons of Jupiter. Giordano Bruno, the 13th century Italian poet and philosopher, was burned alive for discovering the elliptical orbits of the planets turning around the sun and for having extremist ideas. Copernicus did not publish his work, which was a rejection of the life of Ptolemy, until three days before his death, and Newton did not publish his book *Atomic Principles* out of fear of inquisition by the Jesuit fathers. Descartes fled to Holland for fear of them. Even in the 20th century, two centuries since the intellectuals of Europe buried the rotten corpse of the inquisition, the church excommunicated and defrocked **Tiard du Chardin**, the French philosopher and Jesuit priest, for having mystical and scientific ideas.

The result of the heavy pressures of the inquisition was that the intellectuals of Europe such as Walter and encyclopedia writers such as Diderot, Delambre and also Jean-Jacques Rousseau took stands against the church's unlimited authority. To save human thinking from the dictatorship of the Jesuits, not only were they unkind to His Holiness Jesus, that oppressed person of history, the one beaten and crucified by the Roman Empire, they also drove God from his eternal land.

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The withdrawal of the priests and heirs to the inquisition in the face of the intellectuals, the geniuses, the philosophers and the scholars led the educated people in Western societies to turn to the school of science. The schools of science and humanity took the place of the ancient Christianity and God in thought and intellectual activity. With the philosophical revolt of the 19th and 20th centuries to metaphysical ideas and the spreading wave of materialism and Marxism throughout the world, science, as the intellectual and spiritual idol of all the thinkers, destroyed the other intellectual idols and took the place of the creator of the world.

Science and capital joined hands in these two centuries. Technology and high industrial economies reached a point where the genie in the lamp, the one who came out of Aladdin's magic lamp, had escaped and could not be controlled. The genie in the lamp acted on Aladdin's orders, but science did not obey its god and still does not. If this freed genie or monster does not come under control, he will destroy in the wink of an eye all of civilization and human life, which is the product of long centuries of effort by generations of educated people. Thus the human being was cut off from heaven and became attached to the earth, declaring his independence from heaven and God. The story of the human being became the story of someone who stood up straight and broke his back.

It was after man became the captive of the genie in the lamp and the Frankenstein of his own making that the great ones of thought recognized man's alienation in the industrial age. Albert Camus compared the human being to Sisyphus, who carries a rock up to the top of a mountain on his shoulders, and then when he reaches the top at sundown, the rock falls back into the valley and he must repeat the task. A hollow life, meaningless repetition without love, goal or creativity have made today's human beings into robots, and what is left for them is sadness, rebellion, emptiness and alienation. This is why Herbert Marcuse wrote *One-Dimensional Man*, which shows man's alienation in the land of the gods of industry and trade. The sorrows of today's machine-stricken human beings are the outcome of the inappropriate use of the revolutions and intellectual movements of the centuries and ages.

Jesus Christ lived with love and died with love, and gave the most beautiful concept of human life to humanity, meaning love, but what did his heirs, the pompous church leaders and popes, do with his teachings? If Christ came among them again, they would crucify him again for the crime of opposing the actions of the church. Jesus, the son of Mary, gave humanity the gift of love. Likewise, the esteemed prophet of Islam gave Muslims the idea that "the most honorable among you in the sight of God is the most righteous in religion" [Koran], along with the concepts of kindness and unity, but what did the 'Abbasid and Fatemid caliphs do with Abu Muslim Khorasani, Ibn Maqfa, Babak Khorramdin and Mansur Halaj?

The standard-bearers and leaders of the great movements of history, who were the intellectuals in the true sense of the word, have always awakened man from the dreams of the centuries and the ages, but their heirs and false pretenders have been the ones who have diverted these life-giving rivers. One such stream ended in the domains of science and philosophy in ancient Greece. Plato is an example of an intellectual philosopher, because he combined knowledge and insight, such that Heisenberg views him as one of the forerunners of the quantum theory and the new scientific thinking.

Aristotle is also known as the first teacher in the world of philosophy and is considered the founder of the science of logic. Although Aristotle opposed his teacher in the area of Platonic ideas, his ideas brought a transformation in philosophical views and thought, and for 2,000 years no intellectual had the power to stand up against his thinking. Philosophically, even the church of the middle ages saw only the philosophy of Aristotle as being in agreement with Christianity. Just as Plato had mystical leanings, Aristotle was interested in reason and deductive thinking. Other intellectual trends in Europe were at a standstill until the appearance of Descartes, the French philosopher who invented analytical geometry and was the founder of the new philosophy of science. However Descartes himself, in dividing man into spirit and body and the world into thought and dimension, was the founder of specialist knowledge in the world, the analysis of the elements of the world and distancing science from generalities, analogy and the permanent relationship between the parts of a system and its whole. Later this point of view was criticized by the designers of holography.

Recently also, in his book *The Turning Point*, the American physicist Fritjof Capra [as transliterated] has looked with critical eyes on Cartesian categories and views. Although Decartes weakened generalist thinking and looked at spirit and body separately, contrary to today's thinking, in designing the new philosophy, with his famous statement "I think therefore I am," and in giving value to scientific reflection, he is the founder of the philosophical school of reason. He reawakened the spirit of philosophical reflection which had become dormant in the age of Aristotle.

In Karl Marx's 19th century both Hegel and Kant caused great intellectual movements in the world. Hegel, with his dialectic idealism, his school of polemics and with

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his trilogy of thesis, antithesis and synthesis, breathed new life into the body of philosophy, gave a new apparatus to philosophical thought and a new meaning to ideology.

Marx is a philosopher who along with his followers is called intellectual by some writers. The 19th century Russian nihilists, who had ideas that were critical of their situation, also considered themselves intellectuals. In 19th-century Europe, in addition to Marx and Marxism, Emile Zola was also considered an instigator of intellectual activities and movements. He protested the publication of articles titled "I accuse" and the trial of the French officer Dreyfus, who was innocent but was convicted of spying for Germany and imprisoned for years. This kind of activity seeking justice and supporting justice, fairness and the innocent changed writers and thinkers into a combative group, so that some writers came to consider courage as a requirement for intellectualism, along with knowledge and art, in the expression of ideas and combating social corruption and oppression.

In writing their logical and philosophical treatises, the philosophers of the Vienna Circle, especially Wittgenstein, created a new wave in philosophical thinking, and the logical positivism of the "positivists" also opened the door to this very influential wave.

However, one great scientific movement formed in Europe in the 19th and 20th centuries whose founders were European physicists and scholars. The theories of relativism and quantum physics completely changed our views about being, and they brought on new achievements. Great ones in the world of science such as Einstein, Planck, Heisenberg, Schrodinger, Du Brovay and Dirac, each became the standard-bearer of a great scientific movement and even natural philosophy in the world. With their theories, they expanded man's small world and brought on many discoveries and creations in science.

In the area of expediting cultural and intellectual movements, one must mention the names of two French writers, Jean-Paul Sartre and Albert Camus, who played a major role in spreading the philosophies of humanism and ontology.

Intellectual Movements in Iran

As we have written, our criterion for intellectualism is the creation of new activity in science, philosophy or art. The intellectual must gain mastery over the intellectual and ideological thinking of his time and also of the thinking of the centuries and the ages, and then change the thinking and the way of thinking of the people of the world. Otherwise, he has nothing new to say and his thinking does not have enough weight to shake his society and his time.

With his art, the intellectual must give new meaning and concepts to the people of his time, and with his thinking and his writing he must create a world that is so beautiful and luminous that it causes the intellectual, spiritual and cognitive evolution of man; he must also smash the images of dogmatism, oppression and darkness over the heads of their supporters. In short, the words of the intellectual must uproot us from this life and take us to humanity's true place.

In Iran there has been no shortage of great ones who have brought rays of light, illumination and hope into the sad lives of the people of this land, including those who have revived the lost language of the land of Iran, those who have fought prejudice and ignorance and lost their lives doing so and those who have served this country with knowledge and thought and have elevated this nation's culture.

The great Firdawsi is one of those who revived our forgotten language. Our current generation must read the Shahnameh, understand it and use it as a sharp weapon to guard the values, the history, the epics and the spiritual being of every Iran and the borders of the land of Iran. However, there are those who attack Firdawsi in order to attract as much attention themselves as possible and discourage the younger generation from turning to it. For this reason, I do not agree with the thinking of Mr. Seyyed 'Ali Salehi, the eloquent contemporary poet and writer who has written in his article that an outstanding example of intellectualism in Iran is Ahmad Shamlu. If a poet finds his fame in attacking the great ones of Persian literature such as Firdawsi and Sa'di, is this a prominent example of intellectualism? What intellectual, literary, social or philosophical movement in Iran of the type we have been discussing has he started? What new style, thinking or philosophy has he founded? If the intellectuals are the greatest prophets, mystics, scholars, poets, writers and artists of the world of humanity, where does he belong? What flower has he planted in Persian literature that others have not planted?

In any case, must one undermine the firm pillars of one's nationality and history to achieve fame? Must one discourage the young generation from turning to their national epic? Let us move on and return to society's true intellectuals.

In addition to Firdawsi, Suhravardi was the exponent of the philosophy of light. In his philosophy of light, he revived the ideas of the ancient Khosravani philosophers, and his concept "burning intelligence" also brought about a transformation in philosophical thought.

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Khayyam is one of those figures who, like Walter, attacked the dogmatism in specific periods. He looked at the world from a new perspective and brought a new wave into the thinking of the Iranians. Naser Khosrow is a thinker who suffered greatly because of his beliefs. When he was 40 years old, he woke from his precious sleep, quit his position in the court and went to the far horizons in search of truth. What Naser Khosrow did reminds us of the Buddha and Abraham. Few people abandon their positions and their assets and dedicate themselves solely to truth, thought and ascension. Naser Khosrow did not bow to any official, said panegyrics to no one. In his words:

I am one who does not throw pearls before swine.

He lived in hardship and he died in difficult circumstances because of his ideas.

Ibn Sina is one of the great leaders of thought in our land. His writings were taught in Europe until the Renaissance, and he left very profound works in the worlds of philosophy, logic and medicine.

Hafiz and Rumi were two of Iran's intellectual giants. Rumi later went to Rum and Konya because of the Mongol invasion. Hafiz not only brought literature, poetry and literary construction to a peak, he brought a kind of passionate and mystical thinking to poetry. As long as Persian literature lives, the poetry of Hafiz will live like the eternal and living voice of the unseen. As for Rumi, he is famous for the contradictions in his poems and poetry:

I became prominent out of the inanimate masses I died to appearances and became animal I died to animalism and became human Why should I fear because I was removed from the people?

And in another of his poems,

All the particles in the universe are hidden They say to you, day and night We are genuine, insightful and aware For you uninitiated people, we are silent Because your destiny is an inanimate state When will you join the society of the inanimate?

Hafiz and Rumi both had universal ideas, in the sense that they both had a kind of understanding and insight into the world and the universe with which they saw their order, unity and intelligence. As Rumi himself said, a person who has universal thinking hears the sounds of the atoms and the movement of life in the arteries of the worlds; his thinking and the scope of his understanding are not be contained in this small and mute earth vessel. He is constantly in a state of ascent and flight. He feeds on the energy and spirit of the universe and gets inspiration from it. In reality, a person who has universal thinking also has universal awareness and a world inclusive insight. His knowledge and art will live as long as the universe lives.

Today scholars who have philosophical and especially metaphysical leanings speak of material intelligence and the psyche of the basic particles, especially electrons, who have free will in their angle of rotation. Doesn't having free will mean having thoughts and feelings?

Today's concepts of quantum physics were manifested centuries ago in Rumi's poetry. Like Plato, with his metaphysical theories he was a forerunner of today's scientific theories, but unfortunately that discussion is beyond the scope of this article.

In the modern era, 'Ali Akbar Dekhoda expended himself with his great effort on his famous dictionary and left a great and eternal work in the Persian language for all the generations in this land. Sadeq Hedayat brought a new and unique style to the short story which had never been used before him. His *The Blind Owl* created a new wave in literature and in the short story, which spread his fame to Europe and especially to France.

A human being is manifested in his knowledge and he manifests himself with his knowledge. The intellectual manifests himself so much with his knowledge that the spectrum of his light takes in very remote distances.

Hedayat should not have killed himself, because in life the intellectual must be a legend of resistance, self-construction and high thinking. If he cannot endure life, he no longer has any ideas whose spectrum will illuminate their surroundings and spawn action, change, progress and ascension in the lives of others. The life of a human being is a celestial gift and a precious gift of being. Every human being in general and the intellectuals specifically have a mission which they must understand.

They have a share in the evolution of the life of the universe. Just as one atom is influential in the structure of the world, in the intelligent system of the universe also the spirit and thought of a human being, especially if he is a high thinker, is influential. We do not have the right, through suicide, to refuse to take part in the spiritual construction of the universe. Intellectual rebellion is not confined to suicide, it also finds position and credibility in standing up against ignorance, dogmatism, dictatorship, shallow thinking, dark thinking and social oppression and corruption.

Another example of the intellectuals who have become prominent in our society is the late Dr. Mahmud Hesabi. This scholar brought the new physics to Iran, and he remained a teacher and a researcher to the end

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of his life. He founded Tehran University, worked with Einstein and produced the theories of infinite atoms and connected atoms in physics. He also served Persian literature, and his students spawn scientific services everywhere in the world. He is one of the few contemporary Iranian scholars who have become international, and the strict International Physics Circle chose him as scholar of the year.

For the sake of brevity, we will not discuss the rest of the scholars. To end the article well, we will discuss the intellectual world view.

Intellectual World View

The world view of the intellectuals is a profound one. Seeing the world, life, understanding of being, and any kind of acceptance or exertion of influence in the spiritual and psychological environment of others must be profound, meaningful and intelligent.

This is just the opposite of the world view of the masses. The masses, meaning the common people, and especially those who have nothing to do with orderly thinking and scientific, philosophical or artistic thought, are illiterate, or if they are literate, they use their literacy only as a tool for amassing wealth, or they are alienated from intellectual work. The world view of these people is that of a mass who are more involved with emotions and feelings than with logic in the true sense of the word. The intellectual world view must lead to change and reform in the mass world view; it must change the course of their lives and transform their view of life.

The world view of intellectuals must include knowledge and perception. In their social activities, intellectuals must be leaders, creative and innovative, planners, thinkers and motivators. The masses are in need of intellectual activity in the areas of social and intellectual reforms. However, intellectual movements that belittle the masses and put social pressure on them are no longer intellectual movements, but rather simple dictatorships. Then the real intellectuals must construct their thoughts to go in a direction that will lead the masses and make of them creative human beings with will instead of political and social agents for the selfish.

The removal of God, metaphysics and true religion from the intellectual world view was a mistake in history, because the life of a human being, especially the masses, without an internal spiritual structure, is hollow, without goal and meaning and full of suffering and sadness. However, if a human being realizes that he naturally possesses powers whose use will not only overcome his earthly problems but will take him to the highest throne, then he will no longer be sad and will no longer feel himself as being on the planet alone, with no one, sad and distressed.

Therefore, the intellectuals with their feet on the ground and their heads in the clouds must first undertake to preserve their own lives and the earth, and on the other hand, with high and magnanimous thinking they must participate in the sincere service of whatever they believe in, in the plan to complete the universe. They must realize that the future of civilization, culture and life on earth depends on the will, effort, thought and intercession of those who love mankind with devotion and who spare no effort in clarifying the dark lives of themselves and others. With hopes for the day when history will manifest only the luminous and bright thoughts of women and men who think of nothing but love, construction, and ascension.

Iran: Mohajerani, Badamchian Conflict Viewed

96LA0279G London KEYHAN in Persian 23 May 96 p 2

[FBIS Translated Text] A verbal conflict between Asadollah Badamchian, an advisor to the head of the Judicial Branch and an influential member of the Ruhaniyyat-e Mobarez [Militant Clergy Association], with Dr. 'Ata'ollah Mohajerani, the parliamentary deputy of Hashemi-Rafsanjani, has escalated. Asadollah Badamchian accused the Kargozaran-e Sazandegi of bad political ethics and said that he regards all of them to be bad and himself to be good.

In response to the accusations of Badamchian against him that have filled two pages of AKHBAR, Dr. Mohajerani has responded: When I finished reading the full text of the interview, I realized at your knee the clarity of "the sun came as the proof of the sun" and the story of analogies. How well you proved that in the arena of unethical political behavior, you receive a distinct mark. And how easily you point the finger of accusation, suspicion, and labeling toward others. It would have been better if, at least this time, as you sat on the seat of delivering a sermon, preaching, and giving lessons in ethics, you had practiced self-restraint, and the signs of accusation and distortion had not flowed from the corner of your lips under the rays of your kindly eyes and had not been an example of the noble reported saying of the Prophet.

Mohajerani, regarding the points and instances that Badamchian has made against him and the Kargozaran in AKHBAR, has also explained in the same newspaper: You recited a quote as "news" from BAHMAN and regarded it as an example of "deceiving public opinion," "tricking the people," "playing a trick," a "heinous act," and "impoliteness." The issue you referred to,

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the 200 million tumans in assistance, was not a news item but was published in the column called, "Under the Shadow of News." Moreover, has the company importing Hyundai cars not helped any group in the elections! If it has, which group and in what amount?

It should be remembered that this company was one of dozens of large companies that provided a great deal of financial aid to the Militant Clergy Association in the elections.

Mohajerani has then referred to Badamchian's statements against Kargozaran, that, in the war, the liberals said we should have stopped with the conquest of Khorramshahr, and said: I would like to call to your attention a remembrance quoted from the late Ahmad Khomeyni, which he discussed in an interview in Shahrivar 1370 [23 August-22 September 1991] and which has been published in a book on his views, who said: "Regarding the problems of Khorramshahr, the Imam believed that it was better for the war to end, but finally, the war officials said that we should advance to the shores of the Arvandrud in order to ensure compensation from Iraq. The imam did not agree with this at all and said: If you are going to continue the war, you should know that if this war continues in the situation that you are in and you do not succeed, the war will not end and we will have to continue the war to a specific point. Now that the issue of the conquest of Khorramshahr has occurred, it is the best time to end the war."

Mr. Badamchian, you see how harmful haste in judgment can be.

Iran: Interview With Fa'ezeh Canceled

96LA0279F London KEYHAN in Persian 23 May 96 p 2

[FBIS Translated Text] SOBH weekly magazine considers the interview of Fa'ezeh Rafsanjani with the ZANAN [WOMEN'S] magazine, and especially the publishing of a large photograph of her on the first cover page of that magazine, a shocking, unusual, and in fact unacceptable action and writes that the interview of Ms. Fa'ezeh Hashemi with ZANAN magazine has offended and resulted in complaints by many Muslim people. SOBH magazine has not explained why these Muslim people have been offended and whether it was because of the publishing of her large photograph or something else. SOBH magazine has pointed out that publishing a full-page photograph of a woman has been unprecedented or rare since the revolution.

According to SOBH, what is more questionable than publishing the photograph of Fa'ezeh in this interview is the detailed interview of the daughter of the president with a magazine that is affiliated with the Western-leaning press, some of whom act in opposition to the religious and Islamic foundations and are known as sister publications of KIYAN, the organ of Dr. Sorush's party, which closely follows the Western feminist movement.

SOBH has emphasized that Fa'ezeh Hashemi has frequently refused requests from the magazine for interviews.

Iran: Reasons for Defeat of Bill Given

96LA0279M London KEYHAN in Persian 23 May 96 p 12

[FBIS Translated Text] The bill on the prohibition of smoking in public places, after being ratified in the Majles, could not pass through the obstacle of the Council of Guardians. The Council of Guardians can only reject bills that are contrary to the foundations of religious law and the Constitution, whereas prohibition of smoking cigarettes or clay pipes in public places does not contradict either.

Informed sources say that the reason for the rejection of the bill in the Council of Guardians was that they did not want to bring in another escalating factor in the tense climate of Iran. The fight between the users of tobacco and law enforcement agents who are supposed to "stop prohibited acts" was anticipated. The ratification of this bill and legalizing it could have caused new and widespread conflicts throughout the society. For this reason, the Council of Guardians stopped the problem before it began.

Pakistan

Pakistan: Commerce Minister's Trade Policy Speech

BK1807111096 Karachi BUSINESS RECORDER in English 16 Jul 96 p 2

["Text" of speech by Pakistani Commerce Minister Chaudhary Ahmad Mukhtar in Islamabad on 15 July]

[FBIS Transcribed Text] It is a great honour for me to present the Trade Policy for 1996-97. This is the third trade policy of this government and, as you are aware, during these years we have moved towards complete liberalisation of trade.

This year's trade policy is a step further towards that direction. Also, several far-reaching changes are being made to facilitate trade and boost export of value-added items. A host of NOCs [No Objection Certificates] and authorisations which were hitherto required from the Ministry of Commerce or Export Promotion Bureau have been done away with.

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Since the process of liberalisation is now almost complete, I am hoping that in future it may not be necessary to present a traditional kind of annual Trade Policy where announcements are made about restricting or liberalising imports and exports of specific items. Instead, we will be able to focus more on macro issues which could help us in enhancing our share of trade in the world market.

In fact, a start has already been made in that direction and I am pleased to inform you that with the help of national and international experts and trade and industry, work on preparing Long-term policy is nearing completion.

This policy will have the following objectives:

—To meet our obligations towards globalisation of trade under WTO and to prepare Pakistan for emerging challenges and opportunities;
—To provide environment for industry to be more competitive, in terms of its product quality and prices, to meet challenges of free trade;
—To increase Pakistan's share of trade in the international market;
—To diversify exports, commodity as well as country-wise;
—To achieve quantum jumps in our exports through value-additions, aggressive marketing and by making "Made in Pakistan" label more sought after;
—To promote eco-friendly and child labour-free environments; and
—To make procedures, rules and regulations more transparent and simpler to apply.

Another important objective of our Trade Policy is to achieve further outward orientation of the economy. This is all the more essential because of the dramatic changes that are taking place in the world economy. While, on the one hand, there has been a globalisation of markets for goods and services, on the other hand vigorous regional economic integration is taking place. A number of regional arrangements for customs unions, free trade areas, economic unions are developing throughout the world. Pakistan has also taken the following initiatives to participate in and benefit from regional arrangements:

In the context of SAARC [South Asian Association for Regional Cooperation] agreement, Pakistan signed the South Asian Preferential Agreement (SAPTA) under which all member countries of SAARC agreed to cut import duties on each others goods by 10 percent. Negotiations to further expand the scope of trade between member countries are in progress.

A number of in-depth studies on opening trade with India are in the final stages of preparation.

In accordance with the Prime Minister's "look East" policy, Pakistan is closely following the developments in APEC and ASEAN. We are working towards joining APEC and also are establishing a "full dialogue partnership" with ASEAN. It is hoped that Pakistan will be invited to the forthcoming ASEAN-European summit next year.

In order to promote tourism and trade with the Central Asian States, a number of initiatives have been taken including prospects of opening up trade routes and liberalised travel facilities. New avenues are being explored to further promote the already existing closer links with Iran and Turkey. In this connection, negotiations are going on to set up joint ventures in the fields of reinsurance, shipping and banking.

The total trade during 1995-96 created a record by crossing US $20 billion mark with the exports reaching an all-time high of $8.6 billion. As a result of export promotion initiatives taken by the Government, the exports during January-June period achieved an impressive growth of 14.9 percent over the corresponding period in 1995. Exports in the previous six months i.e. July to December 1995 had shown a negative growth rate of 5.4 percent.

I would like to briefly reiterate some of the measures which the Government adopted to achieve the above results despite several difficulties. At the end of last year and early this year a number of consultative meetings were held with the representatives of trade and industry to identify the required actions. The Federal Export Promotion Board was reactivated, and "Exporters" Round Table Conferences were held. Representatives of Trade and Industry were invited and heard in a number of Cabinet and ECC [Economic Coordination Committee] meetings. These were unique initiatives.

As a result of these meetings, a number of important decisions were taken. Furthermore, two special incentives packages, one relating to textiles and the other for non-textile items, were provided. The salient features of the incentive packages were:

Duty drawback rates were corrected and repayment procedure was streamlined by authorising the banks to make the repayments.

Nationalised banks and DFIs [Development Financial Institutions] were asked to implement, without further scrutiny, the recommendations regarding revival of textile sector made by the Committee headed by the Chairman of the Pakistan Banking Council.

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Soft term loans are being provided for boosting exports of surgical instruments. Funds were allocated for setting up of modern testing laboratories for surgical goods and sports goods. A one-stop Export Terminal at Karachi will be operational within the next few days where all export related formalities can be completed under one roof and where customs clearance and banking formalities would be completed round the clock and throughout the year. Consignments of imported inputs for exports will also be processed at this Terminal.

Exporters have been allowed to obtain foreign currency loans against their export earnings.

The massive marketing campaign which was launched for boosting exports of our products was also very helpful. The Prime Minister's visits to Japan, Malaysia, Indonesia, Brunei, Bahrain, Syria and Sweden focused on trade. An unprecedented number of trade delegations were sent abroad with emphasis on new markets and diversification of exports. Chairman, PEPC [Pakistan Export Promotion Council], led a high level trade delegation to Australia. I led trade delegations to Canada, South Africa, Romania, Oman and Jordan. Visits to Myanmar [Burma], Kuwait, Emirates and Morocco are being planned shortly.

Furthermore, during 1995/96, Pakistan participated in a record number of over 50 international exhibitions, 12 single countries exhibitions and 12 local shows/ exhibitions.

Work has also been initiated to construct state-of-the permanent exhibition facilities in Karachi, Islamabad and Lahore. These facilities will attract foreign buyers as well as provide opportunities to our exporters to display their products in a competitive environment.

Concessional freight rates were provided for a number of goods. This facility has been extended to all goods destined for Africa and Latin American markets.

For the first time, Textile Quota Policy was formulated after consultation with the textile industry and exporters. Concept of value-added export has been re-introduced to determine quota allocations.

We are aware that in some areas our export performance was not up to the desired level. For other commodities also the exports could have achieved a much higher figure had we not been handicapped by the following factors:

Levy of Regulatory Duty (RD) on imports resulted in increased costs for exporting firms.

Exports, of sports goods declined due to strong antichild labour propaganda.

With the internationalisation of cotton prices and gradual rise in labour costs we can no longer be bracketed with the producers of inferior quality, low-priced casual wear. We should now brace ourselves to compete with the producers of high quality goods and find a niche in that area of the market.

Increase of duty on raw material of synthetic textiles, coupled with the fact that export rebates were delayed, affected the exports.

Anti-dumping and countervailing charges and duties have created obstacles and uncertainties.

Increase in air and sea freights twice during year made our exports less competitive.

Despite these handicaps, our target is to increase our exports from the present level of about $8.6 billion to $10 billion in 1996-97. We are planning major initiatives towards export promotion and are confident that we will achieve this target due to better crops and higher economic and industrial performance.

The imports during 1995-1996 were $11.7 billion as against $10.4 billion during the last financial year, resulting in an increase of trade deficit to $3 billion. As in the case of exports, there were two distinct trends. For the first six months, the value of imports increased sharply, i.e., from $4469 million to $5505 million or more than 23 percent. In the next six months the position improved substantially and the increase was only from $5925 million to $6167 million i.e. 4 percent.

The overall increase in imports for the full year was contained to 12.5 percent as against an increase of 21.4 percent in the import bin during the previous year. The trade deficit of US$ 3 billion in 1995-96 was on account of higher value of imports of machinery worth US$ 2.5 billion, of which power plants alone stood at US$ 6 million, petroleum and petroleum products registered additional imports of US$ 400 million, chemicals and fertilizers (additional imports of) US$ 583 million and iron and steel (additional imports of) US$ 105 million.

With a view to providing a self-sustaining long-term strategy to promote exports and in the interest of balance of trade, we are taking the following initiatives.

A special task force, consisting of leading industrialists and exporters has been set up to advise the government on lon-term reforms in various areas such as tariff structure, productivity growth, export finance, etc. The Task Force will finalise its recommendations by September, 1996.

We are giving special attention to our production practices. Two areas of particular concern here are

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child labour and meeting international product quality standards. The government is resolved to address these issues vigorously in this fiscal year.

As for the reported use of child labour, there is a clear recognition both by manufacturers as well as the concerned government departments that this practice is socially inefficient: a child out of school and on the shop floor today is a less productive worker tomorrow. In consultation with the relevant domestic and international governmental and non-governmental organisations several steps are being taken to develop an independent system of monitoring and eliminating child labour. A survey is now being conducted in collaboration with ILO [International Labor Organization] and other relevant agencies to assess the magnitude of the problem. Plans are under way to establish rehabilitation centres for providing education, medical care, nutrition, and vocational training to children. A scheme for introducing a "Rugmark;" for hand-knotted carpets is now in final stages.

With regard to upgrading to international standards in product quality, the progress in this field has not yet been very encouraging. Far fewer firms have been ISO 9000 certified than was expected despite the awareness campaigns launched by the Export Promotion Bureau. However, the response is beginning to pick up. Several hundred firms have shown interest in ISO 9000 certification following the seminars organized by the government last year. More seminars are planned for this year. A special unit has been created in the Export Promotion Bureau for disseminating information on ISO 9000 and assisting exporters to participate in the certification programme. There is another scheme to start a series of programmes for training the trainers who can then assist firms in certification.

Economic diplomacy is now the cornerstone of international relations and therefore the Ministry of Commerce plans to work closely with the Ministry of Foreign Affairs to improve the effectiveness of our Missions abroad within existing resources. The Foreign Trade Institute of the Ministry of Commerce has devised special training courses for the senior officers of the Ministry of Foreign Affairs to enable them to handle trade and investment opportunities in a professional manner.

As to the global trade environment, we are taking a number of measures to meet our obligations under the Uruguay Round agreement. Under this agreement, WTO requires member countries to make their legislation and trade practices more transparent on trade-related issues such as anti-dumping and countervailing measures, export subsidies, balance of payments provisions, import licensing, rules of origin, customs valuation, pre-shipment inspection, Trade Related Investment Measures (TRIMs), Trade Related Intellectual Property Rights (TRIPS) and trade in services, etc. Participating-nations will fully benefit from the more trade liberal WTO setting if they have moved on all these fronts.

In particular, anti-dumping measures and countervailing duties and Trade Related Intellectual Property Rights are likely to emerge as potential contentious issues in the future as demands for protectionism increase in the wake of implementation of trade liberalisation commitments under the Uruguay Round. At the same time, to protect its industry against any unfair low-cost or dumped imports, Pakistan has to be fully prepared. In order to meet the new international requirements and the interest of our industry, we are undertaking several measures which include the following:

Firstly, keeping in view the WTO's guidelines, legislation on anti-dumping and countervailing duties is being re-drafted. Chambers of Commerce and Industry and concerned ministries have already been consulted in this regard and the draft Bill will shortly be submitted to the Cabinet.

Secondly, in order to eliminate difficulties faced by importers and to meet the WTO's guidelines, a revised appeals mechanism is being established for reviewing complaints about determination of prices by Pre-Shipment Inspection companies. In this connection consultations have been held with cross-sections of trade arid industry.

Now let me explain to you the important specific Trade Policy measures most of which relate to streamlining of procedures.

i. At present imported goods in their original or unprocessed from can be re-exported subject to the conditions that the reexport F.O.B. [free on board] price is higher by at least 10 percent than the C&F [cost and freight] price and that an authorisation has been obtained from the Ministry of Commerce. It has been decided to remove the condition of obtaining authorization of the Ministry of Commerce and to lower the extent of value addition to 2.5 percent Customs authorities will allow exports subject to general guidelines prescribed by the Ministry of Commerce. Special facilities will now be available for exports to neighbouring countries by sea and air.

ii. Under the existing Export Policy, cement is included in the list of commodities which are exportable through public sector agencies only. Major part of the cement industry stands privatised now. With the establishment of new cement units, it is expected that there will be some surplus available for export. It has, therefore, been

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decided to remove the condition of export of cement through public sector agencies only. Export of cement clinker, which is a semi-finished product, will also be allowed to be exported in the same way. The Ministry of Commerce will work out guidelines for export of cement and clinker keeping in view the production and consumption patterns in different parts of the country. However, export of cement will be allowed only by sea.

iii. At present export finance facility is permissible for 180 days on synthetic and art silk textile products. It has been recommended to the State Bank of Pakistan to consider extending this facility for cotton textile goods, non-textile export items and minerals such as blister copper, magnetite and chrome ore concentrates.

iv. Under the existing customs regulations, a number of manufacturing activities are provided the facility of duty-free import of materials on a temporary basis, provided these are subsequently exported. It has been decided to allow the same facility to the following industries: Canning of foods, including fish products; Manufacturing of audio and video cassettes; and software floppies; Manufacturing of kitchen utensils and other products of plastic materials;

v. Export of carpets as personal baggage has been allowed on production of proof of Foreign Currency encashment only. Export permit from Ministry of Commerce will no longer be required. For statistical purposes, a special shipping bill will be required in case the value of carpets being exported as personal baggage exceeds Rs. 10,000.

vi. In order to facilitate import of machinery to manufacture goods for exports, a procedure will be evolved jointly by Ministry of Commerce and CBR [Central Board of Revenue].

vii. In order to encourage deep-water fishing facilities, import of factory ships and fishing vessels for processing and preserving fishery products are being allowed at a concessionary import duty of 10 percent. Machinery and equipment fitted in these vessels will also be charged the same rate of duty. Import of second-hand fishing trawlers has also been allowed, subject to the conditions applicable for the import of other second-hand ships.

viii. Export of bona fide personal baggage has been facilitated by removing checks by the Ministry of Commerce. Customs officials will be empowered to decide on the bona fides in such cases.

ix. Export of electric fans has been allowed without getting Pakistan Standards Institute Certification. The exporters will, however, have to conform to the standards prescribed by the importing country. Exporters getting ISO 9000 certification will be exempt from this condition.

x. Cotton and cotton-based goods being the backbone of our economy, a Standing Committee has been set up to provide a proactive cotton policy in order to ensure a common denominator of protection to the divergent interests of growers, ginners, exporters and manufacturers of textile goods.

xi. Procedure for import of pesticides and insecticides has been simplified and made more transparent.

xii. Application for permission to re-export frustrated cargo will now be deait with by the Customs authorities, who have been authorised to allow reexport of frustrated cargo.

xiii. According to current Import Policy, certain chemicals/raw materials are importable by industrial consumers for which they have to seek permission from various Ministries/Divisions to determine their entitlement for import. However, it is not clearly laid down as to which Ministries should be approached to obtain permission. This position has now been rectified and the Ministry from which authorisation is required have been clearly mentioned.

xiv. In order to derive maximum benefit from the import of allopathic drugs and pharmaceutical raw materials, condition of shelf life of 75 percent at the time of import against the present 50 percent has been prescribed. However, in specific cases the Director General, Health, may allow exemption from this condition.

xv. Used/refurbished CNG [compressed natural gas] and LPG [liquefied petroleum gas] cylinders are being made importable subject to safety certificate by the Department of Explosives. This will also facilitate availability of economical, environment-friendly fuels.

xvi. In order to check any spread of virus or other plant diseases, it has been decided that import of sugarcane seeds and banana suckers will be subject to prior approval of the Department of Plant Protection.

xvii. Under the current Import Policy Order, import of fans (table, floor, wall, window, ceiling) is banned, except fans up to 88 watts. All electric fans are being made importable.

I am grateful to all those who sent us their valuable suggestions which helped us in formulating the new Trade Policy. We had elicited opinions of all Trade and Industry Associations and eminent experts in the field. As I told you last year at the time of Trade Policy announcement, our Government believes in taking decisions through consultations and consensus. In our view,

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for the development of the country, government, labour, businessmen, and industrialists are all members of the same team. In the new world trade order, we have to face the new challenges collectively. In order to bring our industrial and trading practices at par with the standards of developed countries, we will have to be more in unison.

These decisions, which were approved by the the Ecomomic Coordination Committee of the Cabinet under the chairpersonship of Prime Minister Benazir Bhutto, are reflective of the character and thinking of our Government. Our objective is to improve the living standard of our people by promoting economic growth through trade and industrialisation. I hope the Trade Policy will meet these objectives. To make our policies successful, we need your cooperation, support, and help. Under the dynamic and enlightened leadership of Prime Minister Benazir Bhutto, we are confident that we will be able to reach our goals of prosperity and strength.

Sri Lanka

Sri Lanka: President Returns Home From 'Private Visit'

BK2207114896 Colombo Sri Lanka Broadcasting Corporation International Service in English 1045 GMT 22 Jul 96

[FBIS Transcribed Text] President Chandrika Kumaratunga returned to the island this morning. She arrived in the country after receiving information on the Mullaittivu attack and suspending her private visit.

Sri Lanka: 'Thrivida Pahara' Launched To Support Troops in Mullaitivu

BK2207041896 Colombo DAILY NEWS in English 22 Jul 96

[Received via Internet]

[FBIS Transcribed Text] Liberation Tigers of Tamil Eelam [LTTE] transmissions indicate that over 400 of their cadres have perished in the Mullaitivu battle, the Defence Ministry said on Sunday [21 July].

The ministry said in a statement Sunday night that an operation code-named Thrivida Pahara, a coordinated effort of army, navy and air force, was launched on Thursday [18 July] to support troops who have come under the LTTE attack at Mullaitivu.

The statement said that available information indicates the loss of around 300 soldiers in the four-day battle. It began on Thursday when a large number of LTTE cadres began an assault on the military complex 280 km from Colombo.

The statement said: "Initially troops of the Special Forces were heli-landed three to four Km south of Mullaitivu to secure a beach head. These troops came under enemy fire resulting in a delay in advancing towards the Mullaitivu base. The Sri Lanka Air Force continued to provide fire support to the reinforcements.

"Based on all indications it is presumed that around 300 security forces have been killed in action and over 200 injured. However, the exact number killed or wounded cannot be ascertained yet due to the difficulty in communicating with the troops at Mullaitivu.

"LTTE transmissions monitored so far indicate that over 400 terrorists were killed and a large number injured.

"The Sri Lanka Navy was able to ferry a large number of fresh troops today to strengthen the troops advancing towards Mullaitivu. The first such group was beach landed at 1430 hours today. The Sri Lanka Air Force provided close air support to ensure safety of the troops while landing.

"Bodies of 25 soldiers killed in action are due to be airlifted to Ratmalana today. The International Committee of the Red Cross (ICRC) representative at Vavuniya had informed the Vavuniya Brigade Commander that 55 bodies of soldiers are due to be handed over to the army at Vavuniya today.

"Operation Thrivida Pahara will continue".

The Ministry said so far, 124 names of LTTE fighters killed have been released by the Tigers. This includes Mullaitivu military leader Kumaran and several other senior cadres.

Defence sources said a number of troops of the Army special forces units who were rushed to the aid of the Mullaitivu defenders had been injured in clashes with the LTTE. Some 50 personnel had been brought to the Anuradhapura hospital.

The injured included Mullaitivu army base brigade commander Col. Lawrence Fernando. The commanding officer of the special forces regiment, Lt. Col. Aslam Fazly Laphir who led the relief units was among those reported killed in the fighting.

Lt. Col.Laphir ,34, Commanding officer, 1st Battalion Special Forces was one of the frontline officers who died in the battle.

One of the pioneering officers of the Rapid Deployment Force in the 80s, he served 16 years as a soldier during which time he distinguished himself in battle, resulting in his promotion as Lt. Col. in January this year.

He underwent military training in Qatar, Pakistan, Malaysia and Georgia.

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Off the Mullaitivu coast, the Sea Tigers rammed the Gunboat SLNS Ranaviru killing 28 crew, with four swimming to safety. They were picked up by a navy vessel. Several LTTE cadres, including the Sea Tiger suicide boat crews, are believed to have been killed in this confrontation, reports said.

Military sources said MI 24 helicopters have destroyed several LTTE suicide squad boats off Mullaitivu.

Sri Lanka: LTTE Claims 1,208 Army Troops Killed in Mullaitivu Assault

BK2207042396 Hong Kong AFP in English 0415 GMT 22 Jul 96

[FBIS Transcribed Text] Colombo, July 22 (AFP)—Tamil Tiger guerrillas said Monday [22 July] they had killed a staggering 1,208 Sri Lankan soldiers after overrunning a large army camp in the island's northeast, and fighting was still raging in the area.

The clandestine Voice of Tigers radio said the Liberation Tigers of Tamil Eelam (LTTE) had handed bodies of 441 troops to the International Committee of the Red Cross in the rebel-held northern town of Kilinochchi.

The Red Cross took custody of 55 of the identifiable bodies for delivery to the army while the rest were given to a Sri Lankan government official in Kilinochchi, about 320 kilometers (200 miles) north of here, the radio said.

The radio said the LTTE had lost 128 cadres since hundreds of guerrillas overran and captured the military garrison at Mullaitivu town on the coast with a massive pre-dawn assault Thursday [18 July].

A military spokesman here admitted that fighting was continuing in the region for the fifth day, and that the 55 bodies had reached the military-held town of Vavuniya, south of Kilinochchi.

But he said he had no knowledge about the handing over of 441 bodies. Officials of the ICRC, which has an office here and in Sri Lanka's embattled north and east, could not be reached for comment.

"The situation (in Mullaitivu) remains the same," the military spokesman said. "Fighting is continuing between the terrorists and (army) reinforcements. We have no details."

The LTTE said Sunday [21 July] it slaughtered 1,000 soldiers after overrunning the Mullaitivu garrison in its biggest ever offensive. The Mullaitivu base, one of the largest in Sri Lanka, had housed some 1,000 troops.

The government sent a large number of reinforcements to help the beleaguered military camp. Military officials admit they had lost communication with the garrison.

The Sri Lankan military on Sunday put its losses at around 300 dead and more than 200 injured, but indicated the numbers could be higher.

"The exact number killed or wounded cannot be ascertained yet due to the difficulty in communicating with the troops at Mullaitivu," the defence ministry said. It said more than 400 rebels had been slain in the fighting.

Sri Lanka: LTTE Claims Military Helicopter Shot Down in Alampil

BK2207053996 (Internet) Tamil Eelam News WWW in English 21 Jul 96

[FBIS Transcribed Text] A Sri Lankan military helicopter was shot down and 37 soldiers including the commanding officer were killed yesterday evening as the fighting raged between the LTTE [Liberation Tigers of Tamil Eelam] forces and the Sri Lankan Army reinforcements at Alampil, a coastal village 10 km from Mullaitivu army camp.

Since the fall of Mullaitivu camp, heavy fighting has erupted at Alampil where Sri Lankan military reinforcements are bogged down by the stiff resistance of the LTTE fighters. In the fighting that continued unabated for the last two days, troop reinforcements air-lifted by helicopters in the area came under heavy firing by LTTE fighters and suffered heavy casualties. Yesterday, Sri Lanka attempted to land more troops to assist the besieged soldiers and lost a helicopter. The LTTE Commando units who are familiar with the area have effectively prevented the reinforcements reaching captured Mullaitivu army camp.

In the meantime, the LTTE fighting units engaged in mopping up operations in the bush areas outside the Mullaitivu camp where a small number of troops are still hiding. Already, one thousand troops have perished in the Battle of Mullaitivu.

The LTTE, with the help of civilians, has been removing hundreds of bodies of soldiers from the camp area to Kilinochchi where the bodies will be handed-over to ICRC [International Committee of the Red Cross] representatives today. Large number of bodies are still to be recovered from debris of buildings. Severely decomposed bodies are being cremated in the camp area.

Meanwhile, LTTE's Sea Tiger units which patrol off coastal Region of Mullaitivu, have effectively foiled several attempts by the Sri Lankan Navy to land reinforcements in the area.

The Public pays homage to the dead heroes

In a spontaneous outburst of love and respect for the deliverers of the Tamil people, the residents of the

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Vanni Tamil mainland are displaying their gratitude in various ways. They are helping the LTTE cadres in the fight against the aggressor. At the same time the people bemoan the fallen heroes. Streets are decorated in red and yellow flags and the air of solemnity is quite palpable. The bodies of the martyrs are kept in public places for the people to pay their respects. They bring flowers and shower them on the bodies. Not a single person leaves the place without a moist eye.

ICRC reports to its Head Quarters in Geneva of the killing of civilians

Following the successful attack on the Mullaitivu military complex, the soldiers of the Elephant Pass army camp with malicious intent sent volleys of artillery shells onto the thickly populated parts of Kilinochchi. More than 5 were dead and 16 others mutilated in this firing. The Kilinochchi hospital was damaged and some medical personnel were hurt. French doctors of the MSF [Medicins Sans Frontieres] had a narrow escape when shell fell close to their official residence. Immediately after the above carnage the ICRC, brought this to the notice of its Head Office in Geneva and the Office of the Sri Lankan Defence Ministry in Colombo.

LTTE hands over bodies of Sri Lankan soldiers

LTTE handed-over 441 bodies of Sri Lankan soldiers killed in the Mullaitivu battle to ICRC at Kilinochchi today. The ICRC representatives have taken 55 of the identifiable bodies to be handed-over to the Sri Lankan Army. The remaining 386 bodies were handed-over to the Government Agent of Kilinochchi by the ICRC for cremation. Ms. Nismiya, deputy leader of the women's political section of LTTE handed-over bodies to the ICRC representatives at Kilinochchi.

In the meantime, hundreds of severely decomposed bodies of soldiers killed at Mullaitivu army camp have been cremated in the camp area.

Sri Lanka: Colombo Placed Under 'Tight Security Blanket'

BK2307114396 Colombo Sri Lanka Broadcasting Corporation International Service in English 1045 GMT 23 Jul 96

[FBIS Transcribed Text] Colombo underwent a tight security blanket to ward off possible terrorist attacks to coincide with the 13th anniversary of Black July [marking Tamil militants' armed conflict with government] which falls today. Special security arrangements will be in place for three days from today, a top police official said. Additional police personnel have been ferried down to Colombo from outstations to augment security in the city while police stations in the city and suburbs are geared up with special squads ready for any contingency.

The city of Colombo heightened security activity yesterday with special checks on individuals and vehicles entering the city. Lines of vehicles were seen at all gateways to the city being subjected to intense security checks. Combined police and army guards took up positions opposite key government institutions and other vital installations in the city while detectives in civil [dress] mingled with the crowds looking for any suspicious activity. Lightening cordon and search operations were also carried out in selected areas with a view of flushing any LTTE [Liberation Tigers of Tamil Eelam] presence. A total of 45 suspects were taken in for questioning by the Pettah police in a search operation last Saturday [20 July].

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